

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

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KK PRECISION INC.**

Applicant

**APPLICATION RECORD
(Volume 1 of 2)**

May 29, 2014

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| B | Copy of the Applicant's audited financial statements for the year ended September 30, 2012 and internal statements for the year ended September 30, 2013 (unaudited) and 6 months ended March 31, 2014 (unaudited); |
| C | Copy of the Applicant's cash flow statements for the period commencing the week of May 16, 2014, and ending the week of September 19, 2014; |
| D | Copy of the credit agreement made among Bank of Montreal (" BMO ") and the Applicant dated September 1, 2011, as amended by an amending agreement made among BMO and the Applicant dated January 31, 2013; |
| E | Copy of the credit agreement made among BMO dba BMO Capital Partners (the " Subordinate Lender ") and the Applicant dated September 1, 2011, as amended by an amending agreement made among the Subordinate Lender and the Applicant dated January 31, 2013 |

- F** Security for the credit facilities provided in Exhibits D and E consisting of:
- (a) a General Security and Pledge Agreement dated September 1, 2011, in favour of BMO;
 - (b) Bank Act Security Notice of Intention dated September 2, 2011 (and related documentation), in favour of BMO;
 - (c) an Assignment of Material Agreements dated September 1, 2011, in favour of BMO;
 - (d) a General Security and Pledge Agreement dated September 1, 2011, in favour of the Subordinate Lender; and
 - (e) an Assignment of Material Agreements dated September 1, 2011, in favour of the Subordinate Lender (without exhibits);
- G** Copy of the *Personal Property Security Act* (Ontario) search results for the Applicant, file currency of May 5, 2014;
- H** Letter Agreement dated May 23, 2014 between 104 Oakdale Acquisition Corp. and the Applicant;
- I** Copy of the Demand and Notice of Intention to Enforce Security pursuant to subsection 244(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended;
- J** Copy of the Consent to Act;
- K** Copy of the Accommodation Agreement dated May 26, 2014 (schedules subject to a sealing order sought by the Applicant, and filed separately); and
- L** Copy of the Advisory Agreement dated May 23, 2014.

TAB 1



Court File No.

CV-14-10573-00CL

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

**IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KK PRECISION INC**

Applicant

NOTICE OF APPLICATION

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing on Friday, May 30, 2014, at 10:00 am, at 330 University Avenue, Toronto, Ontario.

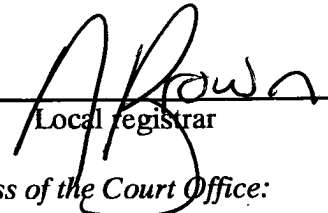
IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

DATE: May 29, 2014

Issued by


Local registrar

Address of the Court Office:

330 University Avenue
Toronto, Ontario

APPLICATION

1. KK Precision Inc. (the “**Applicant**”) makes application for an Order, substantially in the form attached as Schedule “A” herein¹, for the following relief:
 - (a) abridging the time for service of this notice of application and dispensing with service on any other person other than those served;
 - (b) declaring that the Applicant is a party to which the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (“**CCAA**”) applies;
 - (c) appointing Richter Advisory Group Inc. (“**Richter**”) as monitor pursuant to section 11.7 of the CCAA, in these proceedings;
 - (d) staying all proceedings and remedies taken or that might be taken in respect of the Applicant, its respective assets, properties and undertakings, without leave of the Court or as otherwise permitted by law;
 - (e) authorizing the Applicant to carry on business in a manner consistent with the preservation of its property and to make certain payments in connection with its business and the proceedings herein;
 - (f) granting priority charges to secure the Applicant’s obligations in respect of its professional advisors (including the Monitor), and its officers and directors in respect of indemnification obligations; and
 - (g) approving the Accommodation Agreement dated May 26, 2014 (the “**Accommodation Agreement**”) between the Applicant, Rolls-Royce Canada Ltd. and Rolls-Royce Power Engineering PLC, Bank of Montreal (“**BMO**”) and BMO Capital Partners (the “**Subordinate Lender**”);
 - (h) sealing certain schedules of the Accommodation Agreement;

¹ A blackline of the order being sought marked against the Commercial List Model Order is attached hereto as Schedule “B”.

- (i) approving the Key Employee Retention Plan, provided for in the Accommodation Agreement;
- (j) approving the Advisory Services Agreement dated May 23, 2014 between MVM Industrial Services Limited and the Applicant;
- (k) permitting the Applicant to file with the Court a plan of arrangement, reorganization or compromise; and
- (l) such further and other relief as this Honourable Court may deem just.

2. THE GROUNDS FOR THE APPLICATION ARE:

- (a) The Applicant is insolvent and has claims against it that exceed \$5,000,000.00 in debt;
- (b) The Applicant is a manufacturing company that supplies medium-to-large, highly complex gas turbine engine components and sub-assemblies for gas turbines applied in the energy, aerospace, marine and defence sectors;
- (c) the Applicant has found itself severely constrained by a cycle of reducing liquidity and reduced working capital;
- (d) The Applicant has been unable to make any payments on account of principal or interest under a credit agreement made among BMO and the Applicant dated September 1, 2011, as amended by an amending agreement made among BMO and the Applicant dated January 31, 2013, since December 2013.;
- (e) The Applicant has been unable to make any payments on account of principal or interest under and a credit agreement among the Subordinate Lender and the Applicant dated September 1, 2011, as amended by an amending agreement made among the Subordinate Lender and the Applicant dated January 31, 2013, since December 2013.;

- (f) the Applicant is in default in its obligations to BMO and the Subordinate Lender (collectively, the “**Secured Lenders**”) and the Secured Lenders have made demand for repayment and have delivered a notice of intention to enforce security pursuant to section 244(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended;
- (g) a number of unsecured creditors of the Applicant have made demands and threatened causes of action in respect of amounts owed to them by the Applicant;
- (h) the Applicant requires a stay of proceedings from its creditors in order to devise a strategy to maximize value for the benefit of all of its stakeholders;
- (i) Richter has agreed to act as Monitor in these proceedings should the Court see fit to grant the requested relief;
- (j) the provisions of the CCAA, as amended, and the equitable jurisdiction of this Court;
- (k) Rules 2.03, 3.01(d), 3.02, 14.05(2), 16.04, 16.08, and 17.05 of the Rules of Civil Procedure; and
- (l) such further and other grounds as counsel may advise and this Honourable Court may permit.

3. **THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE APPLICATION:**

- (a) the Affidavit of George Koulakian sworn May 28, 2014, and the exhibits annexed thereto;
- (b) the consent of Richter Advisory Group Inc. to act as monitor;
- (c) the pre-filing report of Richter; and

- (d) such further and other evidence as counsel may advise and this Honourable Court may admit.

May 29, 2014

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Solicitors for the Applicant

TAB A

Court File No. _____

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.)	FRIDAY, THE 30 th
)	
JUSTICE WILTON-SIEGEL)	DAY OF MAY, 2014

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KK PRECISION INC. (the "**Applicant**")

INITIAL ORDER

THIS APPLICATION, made by the Applicant, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of George Koulakian sworn May 28, 2014 (the "**Koulakian Affidavit**") and the Exhibits thereto, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicant, Bank of Montreal ("**BMO**") and BMO Capital Partners (the "**Subordinate Lender**", and, together with BMO, the "**Secured Lenders**"), Richter Advisory Group Inc. ("**Richter**" or the "**Monitor**"), and no one appearing for any other party although duly served as appears from the affidavit of service of _____ sworn May _____, 2014 and on reading the consent of Richter to act as the Monitor,

SERVICE

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

APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "**Business**") and Property. The Applicant is authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. **THIS COURT ORDERS** that the Applicant shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and

- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges.

6. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services;
- (b) payment for goods or services actually supplied to the Applicant following the date of this Order; and
- (c) any other amounts the payment of which is provided for by the terms of this Order;

provided that, unless specifically contemplated in this paragraph, the Applicant shall only be entitled, (but not required) to pay costs and expenses that were incurred before the date of this Order to the extent such costs and expenses are deemed necessary for the preservation of the Property and/or the Business by the Applicant and the Monitor or upon further order in these proceedings.

7. **THIS COURT ORDERS** that, notwithstanding paragraph 6, the Applicant shall pay:

- (a) all outstanding and future fees and disbursements of the Monitor, counsel to the Monitor, and counsel to the Applicant, at their standard rates and charges but, subject to any assessment or taxation as provided for by this Order; and
- (b) all outstanding and future fees and expenses of the Bank, its counsel and agents retained on its behalf in respect of these proceedings.

8. **THIS COURT ORDERS** that the Applicant shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of Secured Lenders and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. **THIS COURT ORDERS** that until a real property lease is disclaimed in accordance with the CCAA, the Applicant shall pay or pre-pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities, insurance, and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("**Rent**"), for the period commencing from and including the date of this Order until September 30, 2014 (the "**Current Lease Period**").

10. **THIS COURT ORDERS** that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of

this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. **THIS COURT ORDERS** that the Applicant shall, subject to such requirements as are imposed by the CCAA, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and with the approval of the Monitor and the Secured Lenders, to dispose of redundant or non-material assets not exceeding \$250,000 in any one transaction or \$500,000 in the aggregate
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate;
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing; and
- (d) sell, convey, transfer, assign, lease, or in any manner dispose of the Property or any part or parts thereof:
 - (i) in the ordinary course of business without the specific approval of the Court;
 - (ii) out of the ordinary course of business without the specific approval of the Court, but with the approval of the Monitor and the Bank, provided that the sale or transaction price does not exceed \$250,000 in any one transaction or \$500,000 in the aggregate; and
 - (iii) provided that in all cases the Applicant applies any proceeds thereof in accordance with the Forbearance Agreement;

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business (the "**Restructuring**").

12. **THIS COURT ORDERS** that the Applicant shall provide the landlord with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days

prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable Secured Lenders, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days' notice to such landlord and any such Secured Lenders.

13. **THIS COURT ORDERS** that if a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, in respect of an agreement other than in respect of the Current Lease Period, then (a) during the notice period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

14. **THIS COURT ORDERS** that until and including June 29, 2014, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and

suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (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 RIGHTS

16. **THIS COURT ORDERS** that during the Stay Period, 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 Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Applicant 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 Business or the Applicant, 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 Applicant, and that the Applicant shall be entitled to the continued use of its current premises, 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 Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

18. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, BMO may, in its sole discretion and in consultation with the Monitor, provide the applicant with additional advances on substantially the same terms as the current credit facility being provided by BMO to

the Applicant. Any such further advances will rank equally with all of the other senior secured claims of BMO.

NON-DEROGATION OF RIGHTS

19. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

20. **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

21. **THIS COURT ORDERS** that the Applicant shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

22. **THIS COURT ORDERS** that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of \$100,000, as security for the indemnity

provided in paragraph 21 of this Order. The Directors' Charge shall have the priority set out in paragraphs 38 and 40 herein.

23. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 21 of this Order.

APPOINTMENT OF MONITOR

24. **THIS COURT ORDERS** that Richter is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

25. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicant's receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Applicant, to the extent required by the Applicant, in its dissemination, to the Secured Lenders and its counsel on a monthly or bi-monthly basis of financial and other information as agreed to between the Applicant and the Secured Lenders which may be used in these proceedings including reporting on a basis to be agreed with the Secured Lenders;

- (d) advise the Applicant in its preparation of the Applicant's cash flow statements and reporting required by the Secured Lenders, which information shall be reviewed with the Monitor and delivered to the Secured Lenders and its counsel on a periodic basis, but not less than every month, or as otherwise agreed to by the Secured Lenders;
- (e) advise the Applicant in its development of the Plan and any amendments to the Plan;
- (f) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant, to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) perform and fulfill its duties and obligations under the Accommodation Agreement (as defined below); and
- (j) perform such other duties as are required by this Order or by this Court from time to time.

26. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

27. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor 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 Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor'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.

28. **THIS COURT ORDERS** that the Monitor shall provide any creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

29. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment, the carrying out of the provisions of this Order or the carrying out of its duties and obligations under the Accommodation Agreement, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

30. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a monthly basis and, in addition, the Applicant is hereby authorized to pay to the Monitor, counsel to the Monitor, and counsel to the Applicant, retainers in the

amounts of \$55,000, respectively, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time

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

32. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, if any, and the Applicant's counsel shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of \$250,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 38 and 40 hereof.

ACCOMMODATION AGREEMENT AND KEY EMPLOYEE RETENTION PLAN

33. **THIS COURT APPROVES** the Applicant entering into the accommodation agreement, dated May 26, 2014 (the "**Accommodation Agreement**"), among the Applicant, the Secured Lenders, Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "**Rolls Royce**").

34. **THIS COURT ORDERS** that the Schedules to the Accommodation Agreement be kept sealed pending further order of this Court.

35. **THIS COURT ORDERS AND DECLARES** that all of the employees of the Applicant shall remain the employees of the Applicant until such time as the Applicant may terminate the employment of such employees. Rolls Royce shall not be liable for any employee-related liabilities, including wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, including any successor-employer liabilities, other than any such amounts as Rolls Royce may specifically agree in writing to pay.

36. **THIS COURT ORDERS** that the key employee retention plan provided for in Schedule "C" to the Accommodation Agreement be and is hereby approved.

37. **THIS COURT ORDERS** that the Advisory Services Agreement entered into between MVM Industrial Services Limited, Garth Weldon and the Applicant is hereby ratified and approved. The Applicant is hereby directed to carry out and perform their obligations thereunder (including payment of amounts due to be paid).

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

38. **THIS COURT ORDERS** that the priorities of the Directors' Charge and the Administration Charge, as among them, shall be as follows:

First – Administration Charge (to the maximum amount of \$250,000); and

Second – Directors' Charge (to the maximum amount of \$100,000).

39. **THIS COURT ORDERS** that the filing, registration or perfection of the Directors' Charge, or the Administration Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

40. **THIS COURT ORDERS** that each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of Secured Lenders, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

41. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor, the Secured Lenders and the beneficiaries of the Charges, or further Order of this Court.

42. **THIS COURT ORDERS** that the Directors' Charge, and the Administration Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the

declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) the creation of the Charges shall not create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicant entering into the Accommodation Agreement or the creation of the Charges;
- (c) the payments made by the Applicant pursuant to this Order, the Accommodation Agreement, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

43. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

SERVICE AND NOTICE

44. **THIS COURT ORDERS** that the Monitor shall (i) without delay, publish in the Globe and Mail or the National Post a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

45. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “**Protocol**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established by the Monitor in accordance with the Protocol with the following URL: <http://www.richter.ca/en/insolvency-cases/k/kk-precision-inc>

46. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicant and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

47. **THIS COURT ORDERS** that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder, including without limitation in connection with any matters relating to the Accommodation Agreement.

48. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

49. **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 Applicant, the Monitor and their respective 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 Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. **THIS COURT ORDERS** that each of the Applicant and the Monitor 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 Monitor 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.

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

52. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Daylight Savings Time on the date of this Order.

TAB B

Court File No. _____

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.)
DAY FRIDAY, THE 30th
)
JUSTICE WILTON-SIEGEL) DAY OF
20 MAY, 2014

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF [APPLICANT'S NAME] KK PRECISION
INC. (the "**Applicant**")

INITIAL ORDER

THIS APPLICATION, made by the Applicant, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of [NAME] George Koulakian sworn [DATE] May 28, 2014 (the "**Koulakian Affidavit**") and the Exhibits thereto, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for [NAMES], no one appearing for [NAME]⁺ the Applicant, Bank of Montreal ("BMO") and BMO Capital Partners (the "Subordinate Lender", and, together with BMO, the "Secured Lenders"), Richter Advisory Group Inc. ("Richter" or the "Monitor"), and no one appearing for any other party although duly served as appears from the

⁺ Include names of secured creditors or other persons who must be served before certain relief in this model Order may be granted. See, for example, CCAA Sections 11.2(1), 11.3(1), 11.4(1), 11.51(1), 11.52(1), 32(1), 32(3), 33(2) and 36(2).

affidavit of service of [NAME] _____ sworn [DATE] May _____, 2014 and on reading the consent of [MONITOR'S NAME] Richter to act as the Monitor,

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged and validated² so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "**Business**") and Property. The Applicant is authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

² ~~If service is effected in a manner other than as authorized by the Ontario Rules of Civil Procedure, an order validating irregular service is required pursuant to Rule 16.08 of the Rules of Civil Procedure and may be granted in appropriate circumstances.~~

~~5. [THIS COURT ORDERS that the Applicant shall be entitled to continue to utilize the central cash management system³ currently in place as described in the Affidavit of [NAME] sworn [DATE] or replace it with another substantially similar central cash management system (the "Cash Management System") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicant of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Applicant, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.]~~

5. ~~6.~~ **THIS COURT ORDERS** that the Applicant shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and
- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges.

6. ~~7.~~ **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of

³~~This provision should only be utilized where necessary, in view of the fact that central cash management systems often operate in a manner that consolidates the cash of applicant companies. Specific attention should be paid to cross border and inter company transfers of cash.~~

insurance (including directors and officers insurance), maintenance and security services; ~~and~~

(b) payment for goods or services actually supplied to the Applicant following the date of this Order; and

(c) any other amounts the payment of which is provided for by the terms of this Order;

provided that, unless specifically contemplated in this paragraph, the Applicant shall only be entitled, (but not required) to pay costs and expenses that were incurred before the date of this Order to the extent such costs and expenses are deemed necessary for the preservation of the Property and/or the Business by the Applicant and the Monitor or upon further order in these proceedings.

7. THIS COURT ORDERS that, notwithstanding paragraph 6, the Applicant shall pay:

(a) all outstanding and future fees and disbursements of the Monitor, counsel to the Monitor, and counsel to the Applicant, at their standard rates and charges but, subject to any assessment or taxation as provided for by this Order; and

(b) all outstanding and future fees and expenses of the Bank, its counsel and agents retained on its behalf in respect of these proceedings.

8. **THIS COURT ORDERS** that the Applicant shall remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

(b) all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior

to the date of this Order but not required to be remitted until on or after the date of this Order, and

- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of ~~secured creditors~~Secured Lenders and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. **THIS COURT ORDERS** that until a real property lease is disclaimed ~~for resiliated~~⁴ in accordance with the CCAA, the Applicant shall pay or pre-pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities, insurance, and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("**Rent**"), for the period commencing from and including the date of this Order, ~~twice monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.~~ until September 30, 2014 (the "Current Lease Period").

10. **THIS COURT ORDERS** that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. **THIS COURT ORDERS** that the Applicant shall, subject to such requirements as are imposed by the CCAA ~~and such covenants as may be contained in the Definitive Documents (as hereinafter defined)~~, have the right to:

⁴~~The term "resiliate" should remain if there are leased premises in the Province of Quebec, but can otherwise be removed.~~

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, ~~and~~ with the approval of the Monitor and the Secured Lenders, to dispose of redundant or non-material assets not exceeding \$~~250,000~~ 250,000 in any one transaction or \$~~500,000~~ 500,000 in the aggregate;⁵
- (b) ~~terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate~~; ~~and~~
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing; ~~and~~ and
- (d) sell, convey, transfer, assign, lease, or in any manner dispose of the Property or any part or parts thereof:
 - (i) in the ordinary course of business without the specific approval of the Court;
 - (ii) out of the ordinary course of business without the specific approval of the Court, but with the approval of the Monitor and the Bank, provided that the sale or transaction price does not exceed \$250,000 in any one transaction or \$500,000 in the aggregate; and
 - (iii) provided that in all cases the Applicant applies any proceeds thereof in accordance with the Forbearance Agreement;

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business (the "**Restructuring**").

12. **THIS COURT ORDERS** that the Applicant shall provide ~~each of the relevant landlords~~ landlord with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable ~~secured creditors~~ Secured Lenders, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2)

⁵ ~~Section 36 of the amended CCAA does not seem to contemplate a pre-approved power to sell (see subsection 36(3)) and moreover requires notice (subsection 36(2)) and evidence (subsection 36(7)) that may not have occurred or be available at the initial CCAA hearing.~~

days' notice to such landlord and any such ~~secured creditors. If the Applicant disclaims **{or resiliates}**~~ the lease governing such leased premises in accordance with Section 32 of the CCAA, ~~it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer **{or resiliation}** of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute~~ Secured Lenders.

13. **THIS COURT ORDERS** that if a notice of disclaimer ~~**{or resiliation}**~~ is delivered pursuant to Section 32 of the CCAA, in respect of an agreement other than in respect of the Current Lease Period, then (a) during the notice period prior to the effective time of the disclaimer ~~**{or resiliation}**~~, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer ~~**{or resiliation}**~~, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

14. **THIS COURT ORDERS** that until and including ~~**{DATE — MAX. 30 DAYS}**~~, June 29, 2014, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the

Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (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 RIGHTS

16. **THIS COURT ORDERS** that during the Stay Period, 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 Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Applicant 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 Business or the Applicant, 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 Applicant, and that the Applicant shall be entitled to the continued use of its current premises, 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 Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

18. **THIS COURT ORDERS that, notwithstanding anything else in this Order, BMO may, in its sole discretion and in consultation with the Monitor, provide the applicant with additional advances on substantially the same terms as the current credit facility being provided by BMO to**

the Applicant. Any such further advances will rank equally with all of the other senior secured claims of BMO.

NON-DEROGATION OF RIGHTS

19. ~~18.~~ **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.⁶

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

20. ~~19.~~ **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

21. ~~20.~~ **THIS COURT ORDERS** that the Applicant shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings,⁷ except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

⁶ ~~This non-derogation provision has acquired more significance due to the recent amendments to the CCAA, since a number of actions or steps cannot be stayed, or the stay is subject to certain limits and restrictions. See, for example, CCAA Sections 11.01, 11.04, 11.06, 11.07, 11.08, 11.1(2) and 11.5(1).~~

⁷ ~~The broad indemnity language from Section 11.51 of the CCAA has been imported into this paragraph. The granting of the indemnity (whether or not secured by a Directors' Charge), and the scope of the indemnity, are discretionary matters that should be addressed with the Court.~~

22. ~~21.~~ **THIS COURT ORDERS** that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**")⁸ on the Property, which charge shall not exceed an aggregate amount of \$~~●~~100,000, as security for the indemnity provided in paragraph ~~{20}~~ of this Order. The Directors' Charge shall have the priority set out in paragraphs ~~{38}~~ and ~~{40}~~ herein.

23. ~~22.~~ **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph ~~{20}~~ of this Order.

APPOINTMENT OF MONITOR

24. ~~23.~~ **THIS COURT ORDERS** that ~~{MONITOR'S NAME}~~Richter is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

25. ~~24.~~ **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicant's receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

⁸~~Section 11.51(3) provides that the Court may not make this security/charging order if in the Court's opinion the Applicant could obtain adequate indemnification insurance for the director or officer at a reasonable cost.~~

- (c) assist the Applicant, to the extent required by the Applicant, in its dissemination, to the ~~DIP Lender~~Secured Lenders and its counsel on a ~~[TIME INTERVAL]~~monthly or bi-monthly basis of financial and other information as agreed to between the Applicant and the ~~DIP Lender~~Secured Lenders which may be used in these proceedings including reporting on a basis to be agreed with the ~~DIP Lender~~Secured Lenders;
- (d) advise the Applicant in its preparation of the Applicant's cash flow statements and reporting required by the ~~DIP Lender~~Secured Lenders, which information shall be reviewed with the Monitor and delivered to the ~~DIP Lender~~Secured Lenders and its counsel on a periodic basis, but not less than ~~[TIME INTERVAL]~~every month, or as otherwise agreed to by the ~~DIP Lender~~Secured Lenders;
- (e) advise the Applicant in its development of the Plan and any amendments to the Plan;
- (f) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant, to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) perform and fulfill its duties and obligations under the Accommodation Agreement (as defined below); and
- (j) ~~(i)~~ perform such other duties as are required by this Order or by this Court from time to time.

26. ~~25.~~ **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the

Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

27. ~~26.~~ **THIS COURT ORDERS** that nothing herein contained shall require the Monitor 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 Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor'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.

28. ~~27.~~ **THIS COURT ORDERS** that ~~that~~ the Monitor shall provide any creditor of the Applicant ~~and the DIP Lender~~ with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

29. ~~28.~~ **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment ~~or~~, the carrying out of the provisions of this Order or the carrying out of its duties and obligations under the Accommodation Agreement, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

30. ~~29.~~ **THIS COURT ORDERS** that the Monitor, counsel to the Monitor and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a ~~[TIME INTERVAL]~~ monthly basis and, in addition, the Applicant is hereby authorized to pay to the Monitor, counsel to the Monitor, and counsel to the Applicant, retainers in the ~~amount[s]~~ amounts of \$~~●~~ [-,55,000, respectively, ~~]~~ to be held by them as security for payment of their respective fees and disbursements outstanding from time to time

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

32. ~~31.~~ **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, if any, and the Applicant's counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of \$~~●~~ [-,250,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs ~~{38}~~ and ~~{40}~~ hereof.

~~DIP FINANCING~~

ACCOMMODATION AGREEMENT AND KEY EMPLOYEE RETENTION PLAN

33. ~~32.~~ **THIS COURT ORDERS** that the Applicant is hereby authorized and empowered to obtain and borrow under a credit facility from ~~[DIP LENDER'S NAME]~~ (the "DIP Lender") in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$~~●~~ unless permitted by further Order of this Court. APPROVES the Applicant entering into the accommodation agreement, dated May 26, 2014 (the "Accommodation Agreement"), among the Applicant, the Secured Lenders, Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "Rolls Royce").

33. ~~THIS COURT ORDERS THAT such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between the Applicant and the DIP Lender dated as of [DATE] (the "Commitment Letter"), filed.~~

34. **THIS COURT ORDERS** that the ~~Applicant is hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "Definitive Documents"), as are contemplated by the Commitment Letter or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicant is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the Commitment Letter and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.~~Schedules to the Accommodation Agreement be kept sealed pending further order of this Court.

35. ~~THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "DIP Lender's Charge") on the Property, which DIP Lender's Charge shall not secure an obligation that exists before this Order is made. The DIP Lender's Charge shall have the priority set out in paragraphs [38] and [40] hereof.~~

36. ~~THIS COURT ORDERS that, notwithstanding any other provision of this Order:~~

- ~~(a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge or any of the Definitive Documents;~~
- ~~(b) upon the occurrence of an event of default under the Definitive Documents or the DIP Lender's Charge, the DIP Lender, upon ● days notice to the Applicant and the Monitor, may exercise any and all of its rights and remedies against the Applicant or the Property under or pursuant to the Commitment Letter, Definitive Documents and the DIP Lender's Charge, including without limitation, to cease making advances to the Applicant and set off and/or consolidate any amounts owing by the DIP Lender to the Applicant against the obligations of the Applicant to the DIP Lender under the Commitment Letter, the Definitive Documents or the DIP Lender's Charge, to make~~

- ~~demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicant; and—~~
- (e) ~~the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property.—~~

35. 37. THIS COURT ORDERS AND DECLARES that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or any proposal filed by the Applicant under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the Definitive Documents all of the employees of the Applicant shall remain the employees of the Applicant until such time as the Applicant may terminate the employment of such employees. Rolls Royce shall not be liable for any employee-related liabilities, including wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, including any successor-employer liabilities, other than any such amounts as Rolls Royce may specifically agree in writing to pay.

36. THIS COURT ORDERS that the key employee retention plan provided for in Schedule "C" to the Accommodation Agreement be and is hereby approved.

37. THIS COURT ORDERS that the Advisory Services Agreement entered into between MVM Industrial Services Limited, Garth Weldon and the Applicant is hereby ratified and approved. The Applicant is hereby directed to carry out and perform their obligations thereunder (including payment of amounts due to be paid).

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

38. **THIS COURT ORDERS** that the priorities of the Directors' Charge, and the Administration Charge ~~and the DIP Lender's Charge~~, as among them, shall be as follows⁹:

⁹ ~~The ranking of these Charges is for illustration purposes only, and is not meant to be determinative. This ranking may be subject to negotiation, and should be tailored to the circumstances of the case before the Court. Similarly, the quantum and caps applicable to the Charges should be considered in each case. Please also note that the CCAA now permits Charges in favour of critical suppliers and others, which should also be incorporated into this Order (and the rankings, above), where appropriate.~~

First – Administration Charge (to the maximum amount of \$●250,000); and

Second – ~~DIP Lender's Charge; and Third~~ – Directors' Charge (to the maximum amount of \$●100,000).

39. **THIS COURT ORDERS** that the filing, registration or perfection of the Directors' Charge, or the Administration ~~Charge or the DIP Lender's~~ Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

40. **THIS COURT ORDERS** that each of the ~~Directors' Charge, the Administration Charge and the DIP Lender's Charge~~ Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of ~~secured creditors~~ Secured Lenders, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

41. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the ~~Directors' Charge, the Administration Charge or the DIP Lender's Charge~~ Charges, unless the Applicant also obtains the prior written consent of the Monitor, the ~~DIP Lender~~ Secured Lenders and the beneficiaries of the ~~Directors' Charge and the Administration Charge~~ Charges, or further Order of this Court.

42. **THIS COURT ORDERS** that the Directors' Charge, and the Administration Charge, ~~the Commitment Letter, the Definitive Documents and the DIP Lender's Charge~~ shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees") ~~and/or the DIP Lender~~ thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to ~~BIA~~ the Bankruptcy and Insolvency Act of Canada (the "BIA"), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or


(e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) ~~neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Commitment Letter or the Definitive Documents~~ shall not create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicant entering into the ~~Commitment Letter, Accommodation Agreement or the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and,~~
- (c) the payments made by the Applicant pursuant to this Order, the ~~Commitment Letter or the Definitive Documents~~ Accommodation Agreement, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

43. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

SERVICE AND NOTICE

44. **THIS COURT ORDERS** that the Monitor shall (i) without delay, publish in- ~~[newspapers specified by the Court]~~ the Globe and Mail or the National Post a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

45. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “Protocol”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established by the Monitor in accordance with the Protocol with the following URL: <http://www.richter.ca/en/insolvency-cases/k/kk-precision-inc> 

46. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicant and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

47. **THIS COURT ORDERS** that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder, including without limitation in connection with any matters relating to the Accommodation Agreement.

48. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

49. **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 Applicant, the Monitor and their respective 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 Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. **THIS COURT ORDERS** that each of the Applicant and the Monitor 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 Monitor 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.

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

52. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern ~~Standard~~/Daylight Savings Time on the date of this Order.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KK PRECISION INC.

Court File No.

CV-14-10573-000

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

NOTICE OF APPLICATION

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Toronto-Dominion Centre
Toronto, ON M5K 0A1

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Solicitors for the Applicant

TAB 2

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

**IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KK PRECISION INC.**

Applicant

AFFIDAVIT OF GEORGE KOULAKIAN
(sworn May 28th, 2014)

**I, GEORGE KOULAKIAN, of the City of Toronto, in the Province of Ontario, MAKE
OATH AND SAY AS FOLLOWS:**

1. I am a director and the President of KK Precision Inc. ("**KKP**" or the "**Company**"), and as such, I have personal knowledge of the facts and matters hereinafter deposed to, except where stated to be based on information and belief, in which case I verily believe the same to be true.

THE APPLICATION

2. This affidavit is made in support of an application (the "**Application**") by the Company for an Order (the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), among other things:
 - (a) declaring that the Company is a corporation to which the CCAA applies;
 - (b) staying all proceedings and remedies taken or that might be taken in respect of the Company or any of its property and undertaking, without leave of the Court or otherwise permitted at law;
 - (c) authorizing the Company to carry on business in a manner consistent with the preservation of its property and the maximization of value of its assets for its

stakeholders including, without limitation, authorizing the Company to make payments in connection with the business and the proceedings herein;

- (d) appointing Richter Advisory Group Inc. as monitor (“**Richter**” or the “**Monitor**”) of the Company in these proceedings;
- (e) approving certain charges as set out herein;
- (f) approving the Accommodation Agreement dated May 26, 2014 between the Company, Rolls-Royce Canada Ltd. and Rolls-Royce Power Engineering PLC (together, “**Rolls-Royce**”), Bank of Montreal and BMO Capital Partners (the “**Accommodation Agreement**”);
- (g) approving the Key Employee Retention Plan, provided for in the Accommodation Agreement (the “**KERP**”);
- (h) sealing the Agreement Schedules (as defined herein);
- (i) approving the Advisory Agreement (as defined herein);
- (j) permitting the Company to file with the Court a plan of arrangement, reorganization or compromise (a “**Plan**”);
- (k) deeming service of this Application for the Initial Order to be good and sufficient; and
- (l) such other relief as this Honourable Court may deem just.

CORPORATE OVERVIEW

3. KKP is a corporation formed by amalgamation on September 1, 2011 among KKP Acquisition Corp., Precinda Inc., and KK Precision Inc., pursuant to the Ontario *Business Corporations Act*, R.S.O. 1990. c. B-16 (the “**OBCA**”). KKP operates out of the address municipally known as 104 Oakdale Road, Toronto, Ontario (the “**Premises**”). The Premises is also KKP’s registered office. Attached and marked as **Exhibit “A”** is a true copy of a corporate profile report in respect of KKP (the “**Corporate Search**”).

4. With the exception of myself, all of the directors and officers listed in the Corporate Search have resigned from their respective positions. I am the sole remaining director and officer of the Company.

BACKGROUND AND BUSINESS OPERATIONS

The Company

5. KKP, whose business dates back to 1963, is an active manufacturing company that supplies medium-to-large, highly complex gas turbine engine components and sub-assemblies for gas turbines used in the energy, aerospace, marine and defence sectors. KKP specializes in providing comprehensive design, engineering, manufacturing and supply chain management solutions. Its product portfolio, which primarily consists of turbine casings, diaphragms, seals, rings and other engine components, has been carefully constructed to focus on high value-add turbine parts and sub-assemblies. The Company's engineering and manufacturing knowledge give it a unique competitive advantage and create high barriers to entry for these manufactured parts.
6. The Company's highly disciplined approach to engineering and manufacturing delivers value to its customers through its exceptional machine technology, specialized processes, certifications, six sigma, lean manufacturing practices, world-class engineering, and its assembly process and supply chain management.
7. The Company's key client base includes prominent businesses such as Rolls-Royce, Siemens Power Generation, Pratt & Whitney Canada, General Electric, Unison Engine Components, Atomic Energy of Canada Limited and Husky.

Employees

8. The Company currently has approximately 34 employees (the "**Employees**"). The Employees are non-unionized. The Company does not provide a pension plan to the Employees.

Financial Position

9. Attached and marked as **Exhibit "B"** is a true copy of the Company's audited financial statements for the year ended September 30, 2012, unaudited financial statements for the fiscal year ended September 30, 2013, and the 6 months ended March 31, 2014 (the **"Financial Statements"**).
10. Attached and marked as **Exhibit "C"** is a true copy of the Company's cash flow projections for the 19 week period commencing the week of May 16, 2014, and ending the week of September 19, 2014 (the **"Cash Flows"**). The Cash Flows have been prepared by the Company and Richter.

INDEBTEDNESS

Secured Debt

11. The Company's secured lenders are Bank of Montreal (**"BMO"**) and BMO Capital Partners (the **"Subordinate Lender"**, and together with BMO, the **"Secured Lenders"**).
12. The Company is indebted to BMO with respect to certain credit facilities (the **"Senior Credit Facilities"**) made available by BMO pursuant to and under the terms of a credit agreement made among BMO and the Company dated September 1, 2011, as amended by an amending agreement made among BMO and the Company dated January 31, 2013 (the **"Senior Credit Agreement"**). Attached and marked as **Exhibit "D"** is a true copy of the Senior Credit Agreement.
13. The Company is also indebted to the Subordinate Lender with respect to certain credit facilities (the **"Subordinate Credit Facilities"**, and together with the Senior Credit Facilities, the **"Credit Facilities"**) made available to the Company pursuant to a credit agreement among the Subordinate Lender and the Company dated September 1, 2011, as amended by an amending agreement made among the Subordinate Lender and the Company dated January 31, 2013 (the **"Subordinate Credit Agreement"**, and together with the Senior Credit Agreement, the **"Credit Agreements"**). Attached and marked as **Exhibit "E"** is a true copy of the Subordinate Credit Agreement.

14. As security for the Company's obligations to the Secured Lenders under the Credit Agreements, the Company granted the following security in favour of the Secured Lenders:
- (a) a General Security and Pledge Agreement dated September 1, 2011, in favour of BMO;
 - (b) Bank Act Security Notice of Intention dated September 2, 2011 (and related documentation), in favour of BMO;
 - (c) an Assignment of Material Agreements dated September 1, 2011, in favour of BMO;
 - (d) a General Security and Pledge Agreement dated September 1, 2011, in favour of the Subordinate Lender; and
 - (e) an Assignment of Material Agreements dated September 1, 2011, in favour of the Subordinate Lender;
- (collectively, the "Security")

Attached and marked as **Exhibit "F"** is a true copy of the Security.

15. As at April 22, 2014, the Company is indebted to the Secured Lenders, pursuant to the Credit Agreements, for the following amounts:

Senior Credit Facilities (Account No. ODL 2475-1006-557)

Outstanding Loan:	\$1,400,694.22
Interest:	\$26,335.68
Total Outstanding:	\$1,427,029.90

Senior Credit Facilities (Account No. DMNR 2459-6999-578)

Outstanding Loan:	\$5,670,000.00
Interest:	\$99,220.23
Total Outstanding:	\$5,769,220.23

Subordinate Credit Facilities

Outstanding Loan:	\$4,736,460.98
Interest:	\$169,344.70
Total Outstanding:	\$4,905,805.68
TOTAL INDEBTEDNESS:	\$12,102,055.81

16. The following secured creditors have also registered a security interest against the Company:

- (a) Xerox Canada Ltd., registered December 20, 2011;
- (b) Orbian Financial Services II, Inc., registered December 2, 2013, and December 13, 2013; and
- (c) River VI, L.P., registered December 13, 2013.

17. Attached and marked as **Exhibit “G”** is a true copy of the *Personal Property Security Act* (Ontario) search results for the Company, with a file currency of May 5, 2014.

Unsecured Debt

18. The Company also has approximately \$1,352,664 of unsecured / trade debt as of May 9, 2014.

The Lease

19. The Company currently leases the Premises. This space is approximately 26,000 square feet of manufacturing and office space.
20. The landlord in respect of the Premises is 104 Oakdale Acquisition Corp. (the “**Landlord**”). The Company’s occupation of the Premises was and continues to be governed by a lease agreement dated as of September 1, 2011 (as amended) (the “**Lease**”). The Lease expired on April 30, 2014. However, the Company and the Landlord (with the consent of the Secured Lenders) have recently agreed to extend the terms of the Lease pursuant to a Letter Agreement dated May 1, 2014 (the “**Extension**”).

Agreement”). Under the terms of the Extension Agreement, the Company, among other things, agreed to pre-pay rent up to and including September 30, 2014. Attached and marked as **Exhibit “H”** is a true copy of the Extension Agreement.

EVENTS LEADING TO THE PRESENT APPLICATION

21. The Company is facing increased financial pressure and is suffering from a recent deterioration in financial condition. The current financial difficulties that KKP faces result from several factors which include, but are not limited to:
- (a) a number of management changes which have caused a disruption to the business operations;
 - (b) a recent reduction in sales volumes as a result of weaker global demand for turbines by key clients in the aerospace, energy, marine and nuclear industrial sector, increased competition in the market, and some key clients undertaking production in-house;
 - (c) reduced sales and profitability;
 - (d) delays in receipt of payments for work completed and product sold;
 - (e) a delay in Rolls-Royce transitioning its production of a newer model of engine to the Company for manufacturing / assembly, thereby reducing key work orders (the “**Rolls-Royce Transition**”); and
 - (f) the expiry of the Lease and its impact on the stability of the business operations.

The events described above have combined to cause the Company to find itself constrained by a cycle of reducing liquidity and reduced working capital. In fact, the Company has been unable to make any payments on account of principal and interest under the Credit Agreements since December 2013.

22. The Company now faces an immediate liquidity crisis and the potential loss of material value for the Company and its stakeholders.

NECESSITY OF APPLICATION

Secured Lenders Demand

23. At the end of 2013, the Company and the Secured Lenders attempted to restructure the Credit Agreements and enter into a forbearance agreement. The intent was that a forbearance agreement would provide the Company with time to work with Rolls-Royce to complete the Rolls-Royce Transition and seek out new revenue sources, as well as secure a new credit facility to acquire the Premises from the Landlord (who expressed a desire to sell). The proposed forbearance agreement also contemplated a further injection of funds from the Company's primary shareholder.
24. Unfortunately, in or around December 24, 2013, after several months of negotiations, including the exchange of many versions of the relevant documentation (including final form of the forbearance agreement), the primary shareholder, River Associates Investments, LLC ("**River**") advised that it was no longer in a position to advance the subordinated loan that was required to make the restructuring of the Credit Agreements viable for the Secured Lenders.
25. Without a viable deal that addressed the issues facing the Company, the forbearance agreement and related arrangements were not executed and delivered, leaving the Company in a vulnerable position with the Secured Lenders and also the Landlord.
26. On December 30, 2013, Aird & Berlis LLP, counsel to the Secured Lenders, made written demand (the "**Demand Letter**") on the Company for payment of the indebtedness owing by the Company to the Secured Lenders. The Demand Letter was accompanied by a Notice of Intention to Enforce Security (the "**Notice**") addressed to the Company and prepared pursuant to subsection 244(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended. Attached and marked as **Exhibit "I"** is a true copy of the Demand Letter and Notice.
27. In addition, a number of unsecured creditors of the Company have made demands and threatened causes of action in respect of amounts owed to them by the Company.

Sales Process

28. In view of the failed attempt to restructure the Credit Facilities with the participation of River, the Company (at the request of the Secured Lenders) retained Richter as financial advisor on December 30, 2013 in order to develop strategic alternatives which included seeking potential financing, an equity investment, and / or going concern sale opportunities.
29. Richter and the KKP management team worked throughout January 2014 to stabilize liquidity and operations, allowing sufficient time to prepare a revised F2014 / F2015 business plan, and a confidential information memorandum and a summary teaser for the purpose of seeking a purchaser or investor for the business on a going concern basis.
30. A sales process was launched the week of February 17, 2014, with a view of finding a buyer/ investor and completing a transaction prior to the April 30, 2014 Lease expiry. The Company's Secured Lenders were supportive of this process and continued to provide access to the Credit Facilities, on specific terms and conditions.
31. As part of this sales process, Richter:
 - (a) contacted a total of 57 potential purchasers who may have had an interest in KKP's business as a going concern, including strategic purchasers (competitors, suppliers, companies operating complementary businesses, etc.) and financial buyers (equity investors with an interest in businesses of a similar profile to the Company);
 - (b) provided financial and other due diligence information to 13 parties who executed a confidentiality agreement;
 - (c) arranged meetings with management and tours of the Premises for several interested parties;
 - (d) coordinated meetings and/or phone calls between potential bidders and the Company's most important customer (Rolls-Royce) to discuss the status of the

relationship and potential business terms going forward with a potential new owner of the Company; and

- (e) approached Rolls-Royce about a possible acquisition of KKP, or a partnership with one of the interested bidders.
32. As a result of the foregoing activities, the Company was able to generate interest from several potential bidders, ultimately receiving offers from three going concern purchasers and one lender seeking to re-finance the Senior Credit Facilities (collectively, the **"Interested Purchasers"**). The Company, Richter, the Secured Lenders and Rolls-Royce entered into discussions with the Interested Purchasers and the Company received letters of interest from three of them, and a verbal offer from the fourth. Unfortunately, no final deal was structured or has been completed to date.
33. Discussions still continue with some of the Interested Purchasers.

BENEFITS OF THE PROPOSED RELIEF

34. In the short term, I believe that the stability brought by obtaining the relief sought herein, and in particular a stay of proceedings and the appointment of the Monitor, would provide the foundation for the Company to take the following initiatives:
- (a) preserve its existing cash reserves for essential operations only;
 - (b) continue operations in a transparent and controlled fashion to ensure that value is maximized for all stakeholders;
 - (c) preserve recovery on accounts receivable and avoid any set-off claims;
 - (d) retention of employees for a defined period of time; and
 - (e) administer a controlled liquidation process (a **"CCAA Sales Process"**) in the context of a CCAA proceeding within which negotiations and discussions can take place, all with a view to achieving the highest realizable price for the Company's assets.

35. The alternative would be a bankruptcy or receivership which is undesirable and would likely result in a less attractive recovery for the Company's stakeholders and would set the stage for a poor transition to alternative suppliers for the Company's primary customers. If the Company is not granted the relief sought and was left to collapse, I believe the ramifications would include:
- (a) an immediate liquidation of the Company and its assets generating sale proceeds which may be substantially lower than on an orderly basis;
 - (b) jeopardizing accounts receivable, in addition, customers might expect discounts for accelerated payments or possible set-offs for business disruption; and
 - (c) a significant loss of value for the stakeholders of the Company.
36. The relief set out in the Application is sought to protect the Company's business and operations, and maintain value in the Company and its assets. I do not believe any party will be materially prejudiced by the relief sought in this application. I note that the Secured Lenders, as one of the largest stakeholder in this proposed CCAA proceeding, supports the Application.

THE MONITOR

37. Richter has consented to be being appointed as monitor of the Company pursuant to section 11.7 of the CCAA.
38. I believe that Richter is qualified and competent to act as Monitor. Attached and marked as **Exhibit "J"** is a true copy of a Consent to Act signed by Richter.

RELIEF SOUGHT

Stay of Proceedings

39. The Company is highly concerned that, in light of the current circumstances, an exercise of any rights or remedies against the Company will result in a significant erosion of the value of the Company or its assets and will cause serious detriment to the Company and

its stakeholders. Accordingly, a stay of proceedings will afford the Company a period of time to devise a strategy to maximize value for the benefit of the stakeholders.

Administration Charge

40. In connection with its appointment, it is contemplated that the Monitor, together with counsel to the Monitor, would be granted a Court ordered charge over the assets, property and undertakings of the Company in respect of its fees and disbursements, as well as those of the Company's legal counsel, incurred at the standard rates and charges of such parties, which charge shall be in the aggregate amount of \$250,000 (the "**Administration Charge**").
41. I am informed by my counsel, and do verily believe, that the cost associated with completing a receivership administration or some similar liquidation would be comparable to, or exceed, the Administration Charge. Accordingly, it is my belief that the stakeholders will not be prejudiced by the proposed Administration Charge.

Directors and Officers Charge

42. The Company's obligations to fund its payroll, remit the necessary statutory withholdings, remit HST, and ensure all taxes are paid may result in significant personal liability for directors.
43. The Company seeks a Court ordered charge in the amount of \$100,000 over the assets, property and undertaking of the Company (the "**D & O Charge**") to secure an indemnity in respect of my role as a director and officer of the Company concerning any liabilities that may be incurred in my capacity as director and officer from and after the commencement of these CCAA proceedings. The Company has discussed the quantum of the proposed D & O Charge with the proposed Monitor and Secured Lenders, who have indicated that they have no objection to the quantum of the proposed D & O Charge.

Accommodation Agreement

44. Capitalized terms used under this sub-heading not otherwise defined hereunder, shall have the meanings ascribed to them in the Accommodation Agreement.

45. The Company is seeking approval of the Accommodation Agreement. Salient points of the Accommodation Agreement include:
- (a) KKP continuing the manufacturing of certain component parts or assembled goods for Rolls-Royce;
 - (b) the agreement of Rolls-Royce to pay:
 - (i) the Existing Accounts Receivable upon execution of the Accommodation Agreement;
 - (ii) the KERP Payment;
 - (iii) for Component Parts, for the duration of the Term, in accordance with the terms of the Accommodation Agreement; and
 - (c) the Lender's forbearance, for the duration of the Term, from enforcing their rights and remedies.

Attached and marked as **Exhibit "K"** is a true copy of the Accommodation Agreement, without schedules "A" to "H" (the "**Agreement Schedules**"). As a result of the sensitive commercial information contained in the Agreement Schedules, the Company is seeking a sealing Order with respect to the Agreement Schedules.

46. The Accommodation Agreement becomes effective on the date the following conditions are satisfied or waived by Rolls-Royce:
- (a) the granting of the Initial Order by the Court, approving the Accommodation Agreement and the transactions contemplated therein; and
 - (b) the appointment of the Monitor.
47. The Accommodation Agreement provides for the ongoing support and co-operation from Rolls-Royce and the Secured Lenders during the proposed CCAA proceedings. The Monitor supports the approval of the Accommodation Agreement.

KERP

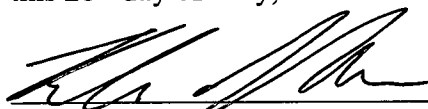
48. The Company is seeking approval of the KERP, as set out in the Accommodation Agreement. If approved, the employees, each of who is considered by the Company to be critical to the successful completion of these CCAA proceedings will participate in the KERP (the “**KERP Employees**”).
49. The KERP Employees are critical to the operation and success of the Company. Without these individuals, the continued operations of the Company as a going concern would be impossible. Payment of the KERP amounts will be provided by Rolls-Royce as part of the funding under the Accommodation Agreement.
50. Given the highly technical nature of the Company’s business, the training of employees requires a significant period of time due to the unique characteristics and extensive knowledge of the product and manufacturing process. The KERP Employees have already received such training and are intimately familiar with the Company’s products and manufacturing.
51. Given the foregoing, the Company has worked with the Secured Lenders, the Monitor and Rolls-Royce to develop the KERP which would result in the payment of certain pre-determined amounts to each KERP Employee. There are approximately 29 employees identified in the KERP. Details of the KERP are set out in Schedule “C” of the Agreement Schedules.

Advisory Agreement

52. MVM Industrial Services Limited is a company incorporated pursuant to the OBCA (“**MVM Industrial**”). Garth Wheldon is an officer and director of MVM Industrial.
53. MVM Industrial entered into an Advisory Services Agreement dated May 23, 2014 with the Company to provide strategic advice and services throughout the proposed CCAA proceedings (the “**Advisory Agreement**”). Attached and marked as **Exhibit “L”** is a true copy of the Advisory Agreement.
54. Terms of the Advisory Agreement include the following:

- (a) MVM Industrial assisting and advising the Company with issues relating to the Company's operations, including a possible sale and/or wind-down;
 - (b) compensation payable to MVM Industrial by the Company in the amount of \$12,000 on a bi-weekly basis; and
 - (c) a bonus payment based on the realization of net liquidation proceeds.
55. The Advisory Agreement is a necessary and appropriate component of the proposed CCAA proceedings.
56. I believe the most feasible and viable option for the Company to best serve all of its stakeholders is through a CCAA proceeding. The protection afforded by the CCAA will allow the Company the opportunity it needs to maximize the value of its assets.
57. I make this affidavit in support of the Application by the Company under the provisions of the CCAA for an order declaring that KKP a corporation to which the CCAA applies, appointing Richter as monitor, granting a stay of proceedings on the terms set out in the draft order, dispensing with service of this application, and granting the charges and such other relief as set out in the draft form of order.

SWORN BEFORE ME at Toronto, Ontario)
this 28th day of May, 2014.)

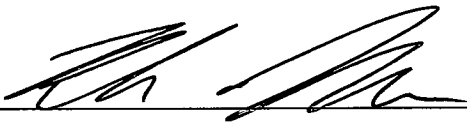

Commissioner for Oaths in and for the
Province of Ontario

Christopher Blake Moran


GEORGE KOULAKIAN

TAB A

Exhibit "A" to the Affidavit of George Koulakian,
sworn before me this 28th day of May, 2014.



Commissioner for Taking Affidavits, etc.

Christopher Blake Moran

Request ID: 016425706
Transaction ID: 54158233
Category ID: UN/E

Province of Ontario
Ministry of Government Services

Date Report Produced: 2014/05/06
Time Report Produced: 15:50:22
Page: 1

LIST OF CURRENT BUSINESS NAMES REGISTERED BY A CORPORATION

Ontario Corporation Number
1858281

CORPORATION NAME
KK PRECISION INC.

REGISTRATION DATE	BUSINESS NAME	EXPIRY DATE	BUSINESS ID NUMBER
----------------------	------------------	----------------	-----------------------

NO CURRENT BUSINESS NAMES ON FILE

THE REPORT SETS OUT ALL BUSINESS NAMES REGISTERED OR RENEWED BY THE CORPORATION IN THE PAST 5 YEARS AND RECORDED IN THE ONTARIO BUSINESS INFORMATION SYSTEM AS AT THE DATE AND TIME OF PRINTING. IF MORE DETAILED INFORMATION IS REQUIRED, YOU MAY REQUEST A SEARCH AGAINST INDIVIDUAL NAMES SHOWN ON THIS REPORT.

The issuance of this report in electronic form is authorized by the Ministry of Government Services.

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Category ID: UN/E

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Ministry of Government Services

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Time Report Produced: 15:50:13
Page: 1

CORPORATION DOCUMENT LIST

Ontario Corporation Number
1858281

Corporation Name
KK PRECISION INC.

ACT/CODE	DESCRIPTION	FORM	DATE (YY/MM/DD)	
CIA	ANNUAL RETURN 2012 PAF: LEE, ANDREW	1C	2013/02/23	(ELECTRONIC FILING)
BCA	ARTICLES OF AMENDMENT	3	2013/01/21	
CIA	INITIAL RETURN PAF: BAKER, W. CRAIG	1	2011/09/19	(ELECTRONIC FILING)
BCA	ARTICLES OF AMALGAMATION	4	2011/09/01	

THIS REPORT SETS OUT ALL DOCUMENTS FOR THE ABOVE CORPORATION WHICH HAVE BEEN FILED ON OR AFTER JUNE 27, 1992, AND RECORDED IN THE ONTARIO BUSINESS INFORMATION SYSTEM AS AT THE DATE AND TIME OF PRINTING. ADDITIONAL HISTORICAL INFORMATION MAY EXIST ON MICROFICHE

ALL "PAF" (PERSON AUTHORIZING FILING) INFORMATION IS DISPLAYED EXACTLY AS RECORDED IN ONBIS. WHERE PAF IS NOT SHOWN AGAINST A DOCUMENT, THE INFORMATION HAS NOT BEEN RECORDED IN THE ONBIS DATABASE

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Province of Ontario
Ministry of Government Services

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Time Report Produced: 15:49:52
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CORPORATION PROFILE REPORT

Ontario Corp Number	Corporation Name	Amalgamation Date
1858281	KK PRECISION INC.	2011/09/01
		Jurisdiction
		ONTARIO
Corporation Type	Corporation Status	Former Jurisdiction
ONTARIO BUSINESS CORP.	ACTIVE	NOT APPLICABLE
Registered Office Address	Date Amalgamated	Amalgamation Ind.
104 OAKDALE RD	NOT APPLICABLE	A
TORONTO ONTARIO CANADA M3N 1V9	New Amal. Number	Notice Date
	NOT APPLICABLE	NOT APPLICABLE
Mailing Address		Letter Date
104 OAKDALE ROAD		NOT APPLICABLE
TORONTO ONTARIO CANADA M3N 1V9	Revival Date	Continuation Date
	NOT APPLICABLE	NOT APPLICABLE
	Transferred Out Date	Cancel/Inactive Date
	NOT APPLICABLE	NOT APPLICABLE
	EP Licence Eff.Date	EP Licence Term.Date
	NOT APPLICABLE	NOT APPLICABLE
	Number of Directors Minimum Maximum	Date Commenced in Ontario
	00001 00010	NOT APPLICABLE
Activity Classification		Date Ceased in Ontario
NOT AVAILABLE		NOT APPLICABLE

Request ID: 016425699
Transaction ID: 54158219
Category ID: UN/E

Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Corporate Name History

KK PRECISION INC.

Effective Date

2011/09/01

Current Business Name(s) Exist:

NO

Expired Business Name(s) Exist:

NO

Amalgamating Corporations

Corporation Name

KKP ACQUISITION CORP.

PRECINDA INC.

KK PRECISION INC.

Corporate Number

2294539

1513497

913292

Request ID: 016425699
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Category ID: UN/E

Province of Ontario
Ministry of Government Services

Date Report Produced: 2014/05/06
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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

JAMES
B.
BAKER

Address

531 EAST PALACE DRIVE

SANTA FE
NEW MEXICO
UNITED STATES OF AMERICA 87501

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:
Name (Individual / Corporation)

JAMES
B.
BAKER

Address

531 EAST PALACE DRIVE

SANTA FE
NEW MEXICO
UNITED STATES OF AMERICA 87501

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

CHAIRMAN

Resident Canadian

N

Request ID: 016425699
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Category ID: UN/E

Province of Ontario
Ministry of Government Services

Date Report Produced: 2014/05/06
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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

W.
CRAIG
BAKER

Address

10 NORTHFIELD ROAD

SIGNAL MOUNTAIN
TENNESSEE
UNITED STATES OF AMERICA 37377

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:
Name (Individual / Corporation)

W.
CRAIG
BAKER

Address

10 NORTHFIELD ROAD

SIGNAL MOUNTAIN
TENNESSEE
UNITED STATES OF AMERICA 37377

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

SECRETARY

Resident Canadian

N

Request ID: 016425699
Transaction ID: 54158219
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Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

MIKE
D.
BROOKSHIRE

Address

1640 REPUBLIC CENTRE
633 CHESTNUT STREET

CHATTANOOGA
TENNESSEE
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:
Name (Individual / Corporation)

WILLIAM
DUBE JR.

Address

491 FAIRLAWN AVENUE

TORONTO
ONTARIO
CANADA M5M 1V3

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

Request ID: 016425699
Transaction ID: 54158219
Category ID: UN/E

Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

WILLIAM
E.
DUBE, JR

Address

491 FAIRLAWN AVENUE

TORONTO
ONTARIO
CANADA M5M 1V3

Date Began

2012/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

Administrator:
Name (Individual / Corporation)

WILLIAM
E.
DUBE, JR

Address

491 FAIRLAWN AVENUE

TORONTO
ONTARIO
CANADA M5M 1V3

Date Began

2012/09/18

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

PRESIDENT

Resident Canadian

Request ID: 016425699
Transaction ID: 54158219
Category ID: UN/E

Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

J.
MARK
JONES

Address

1640 REPUBLIC CENTRE
633 CHESTNUT STREET

CHATTANOOGA
TENNESSEE
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:
Name (Individual / Corporation)

GEORGE
KOULAKIAN

Address

21 KIRKBRIDE CRESCENT

MAPLE
ONTARIO
CANADA L6A 2J5

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

Request ID: 016425699
Transaction ID: 54158219
Category ID: UN/E

Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

GEORGE
KOULAKIAN

Address

21 KIRKBRIDE CRESCENT

MAPLE
ONTARIO
CANADA L6A 2J5

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

VICE-PRESIDENT

Resident Canadian

Y

Administrator:
Name (Individual / Corporation)

ANDREW
LEE

Address

874 WHITE CLOVER WAY

MISSISSAUGA
ONTARIO
CANADA L5V 1C6

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

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Category ID: UN/E

Province of Ontario
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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

ANDREW
LEE

Address

874 WHITE CLOVER WAY

MISSISSAUGA
ONTARIO
CANADA L5V 1C6

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

CHIEF FINANCIAL OFFICER Y

Resident Canadian

Administrator:
Name (Individual / Corporation)

G.H.
PATTEN
PETTWAY JR

Address

1640 REPUBLIC CENTRE
633 CHESTNUT STREET

CHATTANOOGA
TENNESSEE
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

N

Resident Canadian

Request ID: 016425699
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Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:
Name (Individual / Corporation)

GARTH
A.
WHELDON

Address

277 LAKEVIEW AVENUE

BURLINGTON
ONTARIO
CANADA L7N 1Y7

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

Request ID: 016425699
Transaction ID: 54158219
Category ID: UN/E

Province of Ontario
Ministry of Government Services

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CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Last Document Recorded

Act/Code	Description	Form	Date
CIA	ANNUAL RETURN 2012	1C	2013/02/23 (ELECTRONIC FILING)

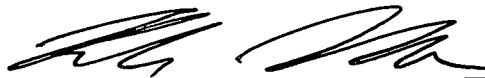
THIS REPORT SETS OUT THE MOST RECENT INFORMATION FILED BY THE CORPORATION ON OR AFTER JUNE 27, 1992, AND RECORDED IN THE ONTARIO BUSINESS INFORMATION SYSTEM AS AT THE DATE AND TIME OF PRINTING. ALL PERSONS WHO ARE RECORDED AS CURRENT DIRECTORS OR OFFICERS ARE INCLUDED IN THE LIST OF ADMINISTRATORS.

ADDITIONAL HISTORICAL INFORMATION MAY EXIST ON MICROFICHE.

The issuance of this report in electronic form is authorized by the Ministry of Government Services.

TAB B

Exhibit "B" to the Affidavit of George Koulakian,
sworn before me this 28th day of May, 2014.

A handwritten signature in black ink, appearing to read "CB Moran", is written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Christopher Blake Moran

KK Precision Inc.
Financial Statements
For the year ended September 30, 2012

Contents

Independent Auditor's Report	2
Financial Statements	
Balance Sheet	3
Statement of Operations and Deficit	4
Statement of Cash Flows	5
Notes to Financial Statements	6-14



Tel: 905 946 1066
Fax: 905 946 9524
www.bdo.ca

BDO Canada LLP
60 Columbia Way, Suite 300
Markham ON L3R 0C9 Canada

Independent Auditor's Report

To the Shareholders of KK Precision Inc.

We have audited the accompanying financial statements of KK Precision Inc., which comprise the balance sheet as at September 30, 2012, and the statements of operations and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KK Precision Inc. as at September 30, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Markham, Ontario
January 30, 2013

KK Precision Inc.
Balance Sheet

September 30	2012	2011
Assets		
Current		
Cash	\$ -	\$ 446,248
Accounts receivable	3,057,988	3,324,148
Inventory (Note 3)	1,374,418	1,391,256
Investment tax credit receivable (Note 10)	125,101	572,424
Prepaid expenses	80,854	79,586
	<u>4,638,361</u>	<u>5,813,662</u>
Capital assets (Note 4)	3,448,162	3,994,412
Future income tax asset (Note 10)	829,000	364,062
Goodwill	12,748,605	12,748,605
	<u>\$21,664,128</u>	<u>\$ 22,920,741</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 5)	\$ 573,936	\$ -
Accounts payable and accrued liabilities (Note 6)	1,899,501	2,865,293
Income taxes payable	-	3,597
Current portion of long-term debt (Note 7)	1,015,000	700,000
	<u>3,488,437</u>	<u>3,568,890</u>
Long-term debt (Note 7)	9,834,781	10,514,084
Due to related party (Note 2)	15,000	-
	<u>13,338,218</u>	<u>14,082,974</u>
Shareholders' Equity		
Share capital (Note 8)	9,500,000	9,500,000
Deficit	(1,174,090)	(662,233)
	<u>8,325,910</u>	<u>8,837,767</u>
	<u>\$21,664,128</u>	<u>\$ 22,920,741</u>

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements.

KK Precision Inc.
Statement of Operations and Deficit

	12 months ended September 30 2012	1 month ended September 30 2011
Sales	\$ 14,236,789	\$ 1,425,421
Cost of sales, excluding depreciation and amortization	11,119,877	1,047,664
Gross margin	3,116,912	377,757
Selling, general and administration	1,064,255	85,729
Operating income before the undernoted items	2,052,657	292,028
Amortization of capital assets	752,987	65,272
Amortization of deferred financing costs	69,655	5,962
Bank charges and interest	47,175	423
Interest on long-term debt	975,603	79,489
Director fees (Note 2)	30,000	2,500
Management fees (Note 2)	196,442	-
Reorganization costs	637,526	1,090,147
Foreign exchange loss (gain)	(3,208)	308
Gain on sale of capital assets	(14,397)	-
	2,691,783	1,244,101
Loss before provision for income taxes	(639,126)	(952,073)
Income taxes (recovery)		
Current	(1,262)	-
Future	(126,007)	(289,840)
Net loss	(511,857)	(662,233)
Deficit, beginning of year	(662,233)	-
Deficit, end of year	\$ (1,174,090)	\$ (662,233)

The accompanying notes are an integral part of these financial statements.

KK Precision Inc.
Statement of Cash Flows

12 months ended 1 month ended
September 30 September 30
2012 2011

Cash provided by (used in)

Operating activities

Net loss	\$ (511,857)	\$ (662,233)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Amortization of deferred financing costs	69,655	5,962
Interest capitalized	91,042	7,397
Amortization of capital assets	752,987	65,272
Gain on sale of capital assets	(14,397)	-
Future income taxes	(126,007)	(289,840)

Changes in non-cash working capital balances

Accounts receivable	266,160	82,540
Inventory	16,838	152,731
Prepaid expenses	(1,268)	(2,513)
Investment tax credit receivable	447,323	-
Accounts payable and accrued liabilities	(965,792)	625,434
Income taxes payable	(3,597)	-
Future income taxes	(338,931)	(24,300)
	<u>(317,844)</u>	<u>(39,550)</u>

Investing activities

Purchase of capital assets	(228,340)	(14,927)
Proceeds from sale of capital assets	36,000	-
Purchase of shares of Precinda Inc.	-	(20,200,000)
	<u>(192,340)</u>	<u>(20,214,927)</u>

Financing activities

Repayment of long-term debt	(525,000)	-
Increase in due to related party	15,000	-
Proceeds from long-term debt	-	11,500,000
Financing costs	-	(299,275)
Proceeds from the issuance of common shares	-	9,500,000
	<u>(510,000)</u>	<u>20,700,725</u>

Net change in cash	(1,020,184)	446,248
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Cash, beginning of year	446,248	-
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Cash (bank indebtedness), end of year	\$ (573,936)	\$ 446,248
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KK Precision Inc.
Notes to Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies

a. Nature of Activities

KK Precision Inc. (the "Company") was incorporated on September 1, 2011 under the Ontario Business Corporations Act. The Company is a diversified manufacturer of precision-machined parts and supplier of engineering services for the energy, aerospace, marine and industrial sectors.

b. Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for private enterprises.

c. Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

d. Revenue Recognition

The Company derives revenue principally from the sale of precision-machined components. Revenue is recognized when title to the goods is passed to the customer, normally upon shipment of the goods and when collectibility is reasonably assured.

e. Goodwill

Goodwill represents the excess of the costs of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment on an annual basis or when an event or circumstance occurs that more likely than not reduces the fair value of goodwill below its carrying amount.

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies (continued)

f. Inventory

Inventory consists of raw material, work in process and finished goods which are valued at the lower of cost and net realizable value with cost being determined on specific identification basis. Cost includes raw material, labour and related manufacturing overhead. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

A provision for write-downs is determined following the revaluation, each year-end, of the net realizable value of inventories based on related sales orders, carrying costs and estimated cost of completion.

g. Capital Assets

Capital assets are carried at cost less accumulated amortization.

Amortization is provided for at rates intended to write off the assets over their estimated economic lives, as follows:

Machinery and equipment	- straight-line over 3 to 15 years
Office furniture and equipment	- straight-line over 3 to 5 years
Leasehold improvements	- straight-line over the term of the lease
Paving	- straight-line over 20 years

h. Impairment of Long-Lived Assets

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long-lived assets. If required, the Company would assess recoverability using estimated undiscounted future operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies (continued)

i. Deferred Financing Costs

Financing costs represent costs incurred by the Company to raise long-term debt. Deferred financing costs are netted against the long term debt and are amortized over the life of the related debt instrument.

j. Foreign Currency Translation

Monetary balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary balance sheet items are translated at the exchange rate in effect at the date of transaction. Revenue (sales) and expenses denominated in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in income in the current period.

k. Income Taxes

The Company follows the future income tax method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the difference between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of future income tax assets and liabilities is included in income. Future income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the periods in which the assets and liabilities will be recovered. Future income tax assets are recognized when it is more likely than not that they will be realized.

l. Research and Development Costs and Tax Credits

The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when the related expenditures are incurred, and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. The Company's claim is subject to audit by Canada Revenue Agency who may allow more than the amount recorded or may disallow all or a portion of the amount recorded.

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

2. Related Party Transactions

- (a) Management fees of \$181,442 (2011 - \$nil) and transaction fees of \$nil (2011 - \$439,065) were paid to a company controlled by directors of the Company. In addition, \$15,000 (2011 - \$nil) in management fees have been accrued but not paid as of September 30, 2012.
- (b) Director fees of \$30,000 (2011 - \$2,500) and due diligence fees of \$nil (2011 - \$50,000) were paid to a director of the Company.

The above noted transactions are in the normal course of operations and are measured at the exchange amounts.

The amounts due to a related party are unsecured, non-interest bearing with no fixed terms of repayment. The related party has waived the right to demand repayment within the next 12 months.

3. Inventory

	2012	2011
Raw materials	\$ 466,009	\$ 337,468
Work in Progress	947,211	1,244,693
Finished Goods	20,439	107,186
	<u>1,433,659</u>	<u>1,689,347</u>
Provision for write-downs to net realizable value	(59,241)	(298,091)
	<u>\$ 1,374,418</u>	<u>\$ 1,391,256</u>

The cost of inventory recognized as an expense and included in cost of goods sold was \$7,665,377 (2011 - \$771,675).

4. Capital Assets

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Machinery and equipment	\$3,916,893	\$680,137	\$3,236,756	\$3,738,472
Office furniture and equipment	142,512	55,127	87,385	99,867
Leasehold improvements	158,123	37,479	120,644	149,366
Paving	6,996	3,619	3,377	6,707
	<u>\$4,224,524</u>	<u>\$776,362</u>	<u>\$3,448,162</u>	<u>\$3,994,412</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

5. Bank Indebtedness

A Senior Credit Agreement provides a revolving Operating Facility up to a maximum of \$4,000,000 for working capital and general corporate requirements. This facility bears interest at the lender's prime rate plus an applicable margin determined on a quarterly basis. As of September 30, 2012, \$97,428 (2011 - \$nil) has been utilized. See Note 7(a).

6. Government Remittances

Included in accounts payable and accrued liabilities are recovery of harmonized sales taxes of \$42,656 (2011 - \$53,489) and government remittances including payroll withholdings and related taxes, and workers' safety insurance premiums of \$5,887 (2011 - \$497,531).

7. Long-Term Debt

	<u>2012</u>	<u>2011</u>
Senior Term Facility - see (a) below	\$ 6,475,000	\$ 7,000,000
Subordinated Debt - see (b) below	4,598,439	4,507,397
Less: Deferred financing costs - see (c) below	<u>(223,658)</u>	<u>(293,313)</u>
	10,849,781	11,214,084
Less current portion of long-term debt	<u>(1,015,000)</u>	<u>(700,000)</u>
	<u>\$ 9,834,781</u>	<u>\$ 10,514,084</u>

Principal payments on long-term debt are as follows:

2013	\$ 1,015,000
2014	980,000
2015	980,000
2016	3,500,000
2017	<u>4,598,439</u>
	<u>\$ 11,073,439</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

7. Long-Term Debt (continued)

- (a) A Senior Credit Agreement provides for a non-revolving Senior Term Facility of \$7,000,000 repayable in varying quarterly amounts and maturing September 1, 2016. In addition, the Senior Credit Agreement provides for a revolving Operating Facility (see Note 5) up to a maximum of \$4,000,000 and a revolving Capital Expenditure Facility up to a maximum of \$2,000,000, both also maturing on September 1, 2016. As of September 30, 2012, the Capital Expenditure Facility has not been utilized.

Amounts owing under the Senior Credit Agreement bear interest at the lender's prime rate plus an applicable margin varying between 1% - 1.75% based on the ratio of Total Funded Debt to Adjusted EBITDA determined on a quarterly basis. As of September 30, 2012, the applicable margin was 1.75%. In addition, a Standby fee of 0.50% was applied on the unutilized portions of the facility.

As at September 30, 2012, the Company was not in compliance with its covenants under the Senior Credit Agreement. Therefore, all obligations to the lender are subject to an additional default interest rate of 2%. On October 31, 2012, the lender provided an amendment to the Senior Credit Agreement and agreed to waive covenant breaches for the quarters ended June 30, 2012 and September 30, 2012. Under the revised terms, the agreement requires the shareholders to inject a minimum \$2,000,000 into the Company. As of January 30, 2013, \$2,000,000 has been deposited into the Company. The Capital Expenditure Facility was subsequently cancelled.

The Senior Credit Agreement is secured by a general security agreement covering all assets of the Company and assignment of its interest in all policies of insurance.

- (b) A Subordinated Credit Agreement provides a non-revolving term loan of \$4,500,000 subordinated only to the Senior Credit Agreement and repayable upon the maturity date of March 1, 2017. The loan bears interest at the rate of 14% of which 12% is payable on a monthly basis and 2% is compounded and payable at the maturity date.

As at September 30, 2012, the Company was not in compliance with its covenants under the Subordinated Credit Agreement. Therefore, all obligations are subject to an additional default interest rate of 2%. On October 31, 2012, the lender provided an amended Senior Credit Agreement and agreed to waive covenant breaches for the quarters ended June 30, 2012 and September 30, 2012. Under the revised terms, the agreement requires the shareholders to inject a minimum \$2,000,000 into the Company. As of January 30, 2013, \$2,000,000 has been deposited into the Company.

The Subordinated Credit Agreement is secured by a general security agreement covering all assets of the Company and assignment of its interest in all policies of insurance.

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

7. Long-Term Debt (continued)

(c)

	<u>2012</u>	<u>2011</u>
Deferred financing costs	\$ 299,275	\$ 299,275
Accumulated amortization	(75,617)	(5,962)
	<u>\$ 223,658</u>	<u>\$ 293,313</u>

8. Share Capital

Authorized

Unlimited Common shares

Issued and outstanding

	<u>2012</u>	<u>2011</u>
9,500,000 Common Shares	<u>\$ 9,500,000</u>	<u>\$ 9,500,000</u>

On December 6, 2012, subsequent to year-end, the Company entered into a Share Redemption Agreement whereby it purchased 151,640 common shares of the Company from a shareholder for \$10,000.

9. Commitments and Contingencies

The Company has exercised its option to renew its operating lease for the rental of its current premises for another year at a base rent of \$10,500 per month. In addition, the Company has equipment leases. Future minimum lease payments are approximately:

2013	\$ 122,100
2014	6,600
2015	6,600
2016	6,600
2017	3,300
	<u>\$ 145,200</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

10. Income Taxes

Future income tax assets consist of the following temporary differences:

	<u>2012</u>	<u>2011</u>
Net operating losses carryforward	\$ 88,771	\$ 55,806
Property, plant and equipment	(612,978)	(634,480)
Scientific research and experimental development	1,229,777	821,857
Intangible assets	116,660	118,341
Other	6,770	2,538
	<u>\$ 829,000</u>	<u>\$ 364,062</u>

The Company has non-capital losses for tax purposes which are available to reduce taxable income in future periods and expire as follows:

2031	\$ 214,800
2032	<u>120,000</u>
	<u>\$ 334,800</u>

The Company has investment tax credits receivable of \$125,101 (2011 - \$572,424) and investment tax credits carryforward of \$1,323,300 which are available to reduce future years' income taxes payable and expire as follows:

2025	\$ 222,500
2026	232,600
2027	263,800
2028	274,900
2029	98,000
2031	16,500
2032	<u>215,000</u>
	<u>\$ 1,323,300</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2012

11. Financial Instruments

Credit Risk and Economic Concentration

The Company is exposed to credit risk on the accounts receivable from customers. As at September 30, 2012, two customers represented 86% (2011 - 86%) of accounts receivable and 85% (2011 - 80%) of sales during the year.

There has not been any significant write-off of accounts receivable and the amount of past due accounts receivables as at September 30, 2012 was minimal. The Company primarily operates in the power generation and aerospace industry and deals with large corporations that are financially well-established. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited to normal industry risk.

Currency risk

The Company is exposed to currency risk on transactions denominated in U.S. dollars. It is management's opinion that the Company is not exposed to significant currency risk and as such does not use derivative instruments to reduce its exposure to foreign currency risk.

Balances denominated in foreign currencies that are considered financial instruments expressed in Canadian dollars are as follows:

	<u>Currency</u>	<u>2012</u>	<u>2011</u>
Bank indebtedness	U.S. dollars	\$ 127,454	\$ 27,097
Accounts receivable	U.S. dollars	333,543	119,747
Accounts payable and accrued liabilities	U.S. dollars	149,380	94,984

The year end exchange rates used in Canadian currency for each unit of foreign currency is as follows:

<u>Currency</u>	<u>2012</u>	<u>2011</u>
U.S. dollar	0.9837	1.0389

Interest rate risk

The Company is exposed to interest rate risk on long-term debt which bears interest at floating rates (see Notes 5 and 7). Under the terms of the Senior Credit Agreement, the Company has the ability to convert to a fixed interest rate determined at the time of conversion.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or that the Company will not have sufficient access to funds to meet operational or investment needs. The Company manages its liquidity risk by closely monitoring cash flows with operating budgets.

KK Precision Inc.
Financial Statements
For the year ended September 30, 2013

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Independent Auditor's Report

To the Shareholders of KK Precision Inc.

We have audited the accompanying financial statements of KK Precision Inc., which comprise the balance sheet as at September 30, 2013, and the statements of operations and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The Company has written down the carrying value of goodwill during the year to \$Nil and reported an impairment loss of goodwill of \$12,748,605 on the statement of operations and deficit for the year ended September 30, 2013. As management was unable to prepare an appropriate analysis to support the fair value of goodwill, we were unable to obtain sufficient appropriate audit evidence relating to the fair value of goodwill. Consequently, we were unable to determine whether any adjustments to the carrying value of goodwill and impairment loss were necessary.

Independent Auditor's Report

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of KK Precision Inc. as at September 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Company has violated its bank covenants during the year. The Company also incurred a net loss of \$16,486,970 for the year ended September 30, 2013 and, as of that date, the Company's accumulated deficit is \$17,825,833. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Chartered Accountants, Licensed Public Accountants

Markham, Ontario
January xx, 2014

KK Precision Inc.
Balance Sheet

September 30 **2013** **2012**

Assets

Current

Cash	\$ 476,720	\$ 3,057,988
Accounts receivable	1,930,672	1,374,418
Inventory (Note 4)	1,957,635	125,101
Investment tax credit receivable (Note 12)	105,764	119,789
Prepaid expenses	119,789	80,854
	<u>4,590,580</u>	<u>4,638,361</u>

Capital assets (Note 5)	2,866,699	3,448,162
Future income tax asset (Note 12)	-	829,000
Goodwill	-	12,748,605
	<u>\$ 7,457,279</u>	<u>\$ 21,664,128</u>

Liabilities and Shareholders' Equity

Current

Bank indebtedness (Note 6)	\$ 1,766,048	\$ 573,936
Accounts payable and accrued liabilities (Note 7)	1,155,472	1,899,501
Dividends payable	164,773	-
Current portion of long-term debt (Note 8)	10,178,919	1,015,000
	<u>13,265,212</u>	<u>3,488,437</u>

Future income tax liability (Note 12)	332,900	-
Long-term debt (Note 8)	-	9,834,781
Due to related party (Note 3)	195,000	15,000
Redeemable preferred shares (Note 9)	2,000,000	-
	<u>15,793,112</u>	<u>13,338,218</u>

Shareholders' Equity

Share capital (Note 10)	9,348,360	9,500,000
Contributed surplus (Note 10)	141,640	-
Deficit	(17,825,833)	(1,174,090)
	<u>(8,335,833)</u>	<u>8,325,910</u>
	<u>\$ 7,457,279</u>	<u>\$ 21,664,128</u>

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements.

KK Precision Inc.
Statement of Operations and Deficit

For the year ended September 30	2013	2012
Sales	\$ 9,128,394	\$ 14,236,789
Cost of sales, excluding depreciation and amortization	8,337,193	11,119,877
Gross margin	791,201	3,116,912
Selling, general and administration	1,018,399	1,064,255
Operating income (loss) before the undernoted items	(227,198)	2,052,657
Amortization of capital assets	707,094	752,987
Amortization of deferred financing costs	74,002	69,655
Bank charges and interest	66,481	47,175
Impairment of goodwill	12,748,605	-
Interest on long-term debt	1,039,683	975,603
Director fees (Note 3)	30,000	30,000
Management fees (Note 3)	180,000	196,442
Reorganization costs	125,810	637,526
Foreign exchange gain	(16,096)	(3,208)
Gain on sale of capital assets	(80,881)	(14,397)
	14,874,698	2,691,783
Loss before provision for income taxes	(15,101,896)	(639,126)
Income taxes expense (recovery)		
Current	-	(1,262)
Future	1,385,074	(126,007)
Net loss	(16,486,970)	(511,857)
Deficit, beginning of year	(1,174,090)	(662,233)
Dividends declared	(164,773)	-
Deficit, end of year	\$(17,825,833)	\$ (1,174,090)

The accompanying notes are an integral part of these financial statements.

KK Precision Inc.
Statement of Cash Flows

For the year ended September 30

2013

2012

Cash provided by (used in)

Operating activities

Net loss	\$(16,486,970)	\$(511,857)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Amortization of deferred financing costs	74,002	69,655
Impairment of goodwill	12,748,605	-
Interest capitalized	108,301	91,042
Amortization of capital assets	707,094	752,987
Gain on sale of capital assets	(80,881)	(14,397)
Future income taxes	1,385,074	(126,007)

Changes in non-cash working capital balances

Accounts receivable	1,127,316	266,160
Inventory	(583,217)	16,838
Prepaid expenses	(38,935)	(1,268)
Investment tax credit receivable	19,337	447,323
Accounts payable and accrued liabilities	(744,029)	(965,792)
Income taxes payable	-	(3,597)
Future income taxes	(223,174)	(338,931)

(1,987,477) (317,844)

Investing activities

Purchase of capital assets	(136,050)	(228,340)
Proceeds from sale of capital assets	91,300	36,000

(44,750) (192,340)

Financing activities

Increase in bank indebtedness	1,192,112	573,936
Repayment of long-term debt	(805,000)	(525,000)
Increase in due to related party	180,000	15,000
Financing costs	(48,165)	-
Proceeds from the issuance of preferred shares	2,000,000	-
Redemption of common shares	(10,000)	-

2,508,947 63,936

Net change in cash

476,720 (446,248)

Cash, beginning of year

- 446,248

Cash, end of year

\$ 476,720 \$ -

The accompanying notes are an integral part of these financial statements.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

1. Summary of Significant Accounting Policies

a. Nature of Activities

KK Precision Inc. (the "Company") was incorporated on September 1, 2011 under the Ontario Business Corporations Act. The Company is a diversified manufacturer of precision-machined parts and supplier of engineering services for the energy, aerospace, marine and industrial sectors.

b. Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for private enterprises ("ASPE").

c. Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.

d. Revenue Recognition

The Company derives revenue principally from the sale of precision-machined components. Revenue is recognized when title to the goods is passed to the customer, normally upon shipment of the goods and when collectibility is reasonably assured.

e. Goodwill

Goodwill represents the excess of the costs of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment on an annual basis or when an event or circumstance occurs that more likely than not reduces the fair value of goodwill below its carrying amount.

f. Financial Instruments

Financial instruments are recorded at fair value when acquired or issued and subsequently measured at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

1. Summary of Significant Accounting Policies (continued)

g. Inventory

Inventory consists of raw material, work in process and finished goods which are valued at the lower of cost and net realizable value with cost being determined on specific identification basis. Cost includes raw material, labour and related manufacturing overhead. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

A provision for write-downs is determined following the revaluation, each year-end, of the net realizable value of inventories based on related sales orders, carrying costs and estimated cost of completion.

h. Capital Assets

Capital assets are carried at cost less accumulated amortization.

Amortization is provided for at rates intended to write off the assets over their estimated economic lives, as follows:

Machinery and equipment	- straight-line over 3 to 15 years
Office furniture and equipment	- straight-line over 3 to 5 years
Leasehold improvements	- straight-line over the term of the lease
Paving	- straight-line over 20 years

i. Impairment of Long-Lived Assets

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long-lived assets. If required, the Company would assess recoverability using estimated future undiscounted operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its discounted cash flow value.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

1. Summary of Significant Accounting Policies (continued)

j. Deferred Financing Costs

Financing costs represent costs incurred by the Company to raise long-term debt. Deferred financing costs are netted against the long term debt and are amortized over the life of the related debt instrument.

k. Foreign Currency Translation

Monetary balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary balance sheet items are translated at the exchange rate in effect at the date of transaction. Revenue (sales) and expenses denominated in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in income in the current period.

l. Income Taxes

The Company follows the future income tax method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the difference between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of future income tax assets and liabilities is included in income. Future income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the periods in which the assets and liabilities will be recovered. Future income tax assets are recognized when it is more likely than not that they will be realized.

m. Research and Development Costs and Tax Credits

The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when the related expenditures are incurred, and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. The Company's claim is subject to audit by Canada Revenue Agency who may allow more than the amount recorded or may disallow all or a portion of the amount recorded.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

2. Going Concern

The financial statements have been prepared on a going concern basis in accordance with Canadian accounting standards for private enterprises, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has experienced significant losses and negative cash flows from operations in the current fiscal year and in previous fiscal years resulting in an accumulated deficit of \$17,825,833 as at September 30, 2013 (2012 - \$1,174,090). As a result, there is some doubt about the appropriateness of the use of the going concern assumption.

As part of the banking agreement, the Company is required to comply with certain financial covenants. At year end, the Company was not in compliance with its covenants. The Company's ability to discharge its liabilities and continue its operations depends upon financial support from, among others, its shareholders, the bank, and other creditors and the Company's ability to eventually realize operating profits.

Management believes that the financial support being provided will mitigate the adverse conditions and events that raise doubt about the validity of the going concern assumption used in preparing these financial statements. However, there is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern in the foreseeable future.

These financial statements do not reflect adjustments that might be necessary and material, including the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used if the going concern assumption were not appropriate.

3. Related Party Transactions

- (a) Management fees of \$nil (2012 - \$181,442) were paid to a company controlled by directors of the Company. Management fees of \$180,000 (2012 - \$15,000) have been accrued but not paid in the year. Total management fees owing to the related party at year end is \$195,000 (2012 - \$15,000).
- (b) Director fees of \$30,000 (2012 - \$30,000) were paid to a director of the Company.
- (c) Expenses of \$21,999 (2012 - \$nil) were paid to a company controlled by directors of the company.

The above noted transactions are in the normal course of operations and are measured at the exchange amounts.

The amounts due to a related party are unsecured, non-interest bearing with no fixed terms of repayment. The related party has waived the right to demand repayment within the next 12 months.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

4. Inventory

	2013	2012
Raw materials	\$ 732,707	\$ 466,009
Work in progress	1,505,604	947,211
Finished goods	13,892	20,439
	<u>2,252,203</u>	<u>1,433,659</u>
Provision for write-downs to net realizable value	(294,568)	(59,241)
	<u>\$ 1,957,635</u>	<u>\$ 1,374,418</u>

The cost of inventory recognized as an expense and included in cost of goods sold was \$5,234,952 (2012 - \$7,665,377).

5. Capital Assets

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Machinery and equipment	\$3,787,045	\$1,122,123	\$2,664,922	\$3,236,756
Office furniture and equipment	212,806	111,399	100,907	87,385
Leasehold improvements	183,222	82,518	100,704	120,644
Paving	6,997	6,831	166	3,377
	<u>\$4,189,570</u>	<u>\$1,322,871</u>	<u>\$2,866,699</u>	<u>\$3,448,162</u>

6. Bank Indebtedness

A Senior Credit Agreement provides a revolving Operating Facility up to a maximum of \$2,300,000 (to confirm) for working capital and general corporate requirements. This facility bears interest at the lender's prime rate plus an applicable margin determined on a quarterly basis. As of September 30, 2013, \$1,592,683 (2012 - \$97,428) has been utilized. See Note 8(a).

Government Remittances

Included in accounts payable and accrued liabilities are recovery of harmonized sales taxes of \$8,360 (2012 - \$42,656) and government remittances including payroll withholdings and related taxes, and workers' safety insurance premiums of \$5,306 (2012 - \$5,887).

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

8. Long-Term Debt

	2013	2012
Senior Term Facility - see (a) below	\$ 5,670,000	6,475,000
Subordinated Debt - see (b) below	4,706,740	598,439
Less: Deferred financing costs - see (c) below	(197,821)	(223,658)
	10,178,919	10,849,781
Less current portion of long-term debt	(10,178,919)	(1,015,000)
	<u>\$ -</u>	<u>\$ 9,834,781</u>

- (a) A Senior Credit Agreement provides for a non-revolving Senior Term Facility of \$7,000,000 repayable in varying quarterly amounts and a revolving operating facility (see Note 6) up to a maximum of \$2,300,000 both maturing on September 1, 2016.

Amounts owing under the Senior Credit Agreement bear interest at the lender's prime rate plus an applicable margin of 3%. In addition, a Standby fee of 0.80% is applied on the unutilized portions of the operating facility.

As at September 30, 2013, the Company was not in compliance with its covenants under the Senior Credit Agreement and therefore, all obligations to the lender became immediately due and payable and subject to an additional default interest rate of 2%. The long-term debt has been classified as current liability.

The Senior Credit Agreement is secured by a general security agreement covering all assets of the Company and assignment of its interest in all insurance policies.

- (b) A Subordinated Credit Agreement provides a non-revolving term loan of \$4,500,000 subordinated only to the Senior Credit Agreement and repayable upon the maturity date of March 1, 2017. The loan bears interest at the rate of 14% of which 12% is payable on a monthly basis and 2% is compounded and payable at the maturity date.

As at September 30, 2013, the Company was not in compliance with its covenants under the Subordinated Credit Agreement and therefore, all obligations to the lender became immediately due and payable and subject to an additional default interest rate of 2%. The long-term debt has been classified as current liability.

The Subordinated Credit Agreement is secured by a general security agreement covering all assets of the Company and assignment of its interest in all insurance policies.

- (c)

	2013	2012
Deferred financing costs	\$ 347,440	\$ 299,275
Accumulated amortization	(149,619)	(75,617)
	<u>\$ 197,821</u>	<u>\$ 223,658</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

9. Redeemable Preferred Shares

Authorized

Unlimited Preferred shares, non-voting, 12% cumulative compound dividends, at redemption value of \$1 per share, redeemable at \$1 per share at the option of the Company

Issued

		2013	2012
2,000,000	Preferred shares	\$ 2,000,000	\$ -

In January 2013, the Company authorized an unlimited number of preferred shares and issued 2,000,000 preferred shares for proceeds of \$2,000,000. Dividends of \$164,773 have been declared and accrued but not paid at year end.

10. Share Capital

Authorized

Unlimited Common shares

Issued

		2013	2012
9,348,360	Common shares (2012 - 9,500,000)	\$ 9,348,360	\$ 9,500,000

In December 2012, the Company entered into a Share Redemption Agreement to redeem 151,640 common shares for a total redemption value of \$10,000. The difference of \$141,640 between the original amount contributed by the shareholder and the redemption value is charged to contributed surplus.

11. Commitments and Contingencies

The Company has extended its operating lease for the rental of premises to April 2014. In addition, the Company has an equipment lease expiring March 2017. Future minimum lease payments are approximately:

2014	\$ 80,600
2015	6,600
2016	6,600
2017	3,300
	<u>\$ 97,100</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

12. Income Taxes

Future income tax assets (liabilities) consist of the following temporary differences:

	2013	2012
Net operating losses carryforward	\$ 440,724	\$ 88,771
Property, plant and equipment	(447,032)	(612,978)
Scientific research and experimental development	1,579,176	1,229,777
Intangible assets	108,494	116,660
Other	5,638	6,770
	1,687,000	829,000
Less: valuation allowance	(2,019,900)	-
	<u>\$ (332,900)</u>	<u>\$ 829,000</u>

The Company has non-capital losses for tax purposes which are available to reduce taxable income in future periods and expire as follows:

2031	\$ 215,000
2032	120,000
2033	1,328,000
	<u>\$ 1,663,000</u>

The Company has investment tax credits receivable of \$105,764 (2012 - \$125,101) and investment tax credits carryforward of \$1,503,700 which are available to reduce future years' income taxes payable and expire as follows:

2025	\$ 222,500
2026	232,700
2027	263,800
2028	274,900
2029	98,200
2031	16,600
2032	215,000
2033	180,000
	<u>\$ 1,503,700</u>

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

13. Financial Instruments

Credit Risk and Economic Concentration

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company provides credit to its customers in the normal course of its operations. As at September 30, 2013, two customers represented 82% (2012 - 86%) of accounts receivable and 84% (2012 - 85%) of sales during the year.

There has not been any significant write-off of accounts receivable and the amount of past due accounts receivables as at September 30, 2013 was minimal. The Company primarily operates in the power generation and aerospace industry and deals with large corporations that are financially well-established. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited to normal industry risk.

Currency risk

The Company undertakes transactions denominated in US dollars and as such is exposed to price risk due to fluctuations in foreign exchange rates. The Company considers this risk acceptable and therefore does not hedge its foreign exchange rate risks.

Balances denominated in foreign currencies that are considered financial instruments expressed in Canadian dollars are as follows:

	<u>Currency</u>	<u>2013</u>	<u>2012</u>
Cash	U.S. dollars	\$ 476,289	\$ -
Bank indebtedness	U.S. dollars	-	127,454
Accounts receivable	U.S. dollars	634,108	333,543
Accounts payable and accrued liabilities	U.S. dollars	124,446	149,380

The year end exchange rates used in Canadian currency for each unit of foreign currency is as follows:

<u>Currency</u>	<u>2013</u>	<u>2012</u>
U.S. dollar	1.0285	1.0389

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on long-term debt which bears interest at floating rates (see Notes 6 and 8). Under the terms of the Senior Credit Agreement, the Company has the ability to convert to a fixed interest rate determined at the time of conversion.

KK Precision Inc.
Notes to Financial Statements

September 30, 2013

13. Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial assets. Liquidity risk arises from bank indebtedness, accounts payable and accrued liabilities, current portion of long-term debt and commitments. The Company limits its exposure to this risk by closely monitoring their cash flow with operating budgets.

Draft - January 23, 2014

BALANCE SHEET

KK Precision Inc.

Balance Sheet C\$000's	Sep F13 Act	Oct Act	Nov Act	Dec Act	Jan Act	Feb Act	Mar Act
Cash	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Accounts receivable	1,930.672	1,682.865	1,875.081	1,626.136	1,695.746	1,814.949	2,122.192
Inventory	1,957.635	1,910.231	1,908.293	1,912.743	1,805.466	1,706.712	1,764.079
Future income taxes	-	-	-	-	-	-	-
Prepaid expenses	119.789	106.071	106.179	67.291	88.744	89.943	86.505
Current assets	4,008.096	3,699.167	3,889.553	3,606.170	3,589.956	3,611.604	3,972.776
Future income taxes	2,577.797	2,639.630	2,700.725	2,802.426	2,898.836	2,953.915	2,998.053
Related party loans receivable	-	-	-	-	-	-	-
Due from parent	-	-	-	-	-	-	-
Capital assets, net	2,866.699	2,812.126	2,767.890	2,710.829	2,654.142	2,597.592	2,545.752
Goodwill	-	-	-	-	-	-	-
Total assets	9,452.592	9,150.923	9,358.168	9,119.425	9,142.934	9,163.111	9,516.581
Bank indebtedness	1,289.328	1,398.884	1,644.027	1,333.089	1,456.163	0.000	0.000
A/P & accrued liabilities	1,090.597	893.378	1,095.157	1,283.474	1,551.942	1,682.685	1,899.138
Provision for restructuring	64.873	44.588	35.879	30.073	26.202	26.202	26.202
Acquisition amounts payable	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Related party amounts payable	195.000	210.000	225.000	502.306	517.306	0.000	15.000
Income tax payable	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Current portion of long term debt	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Current liabilities	2,639.798	2,546.850	3,000.063	3,148.942	3,551.613	1,708.887	1,940.340
Long term debt	10,376.740	10,386.733	10,396.425	10,406.461	10,416.518	10,615.739	10,625.836
Bank indebtedness	-	-	-	-	-	1,261.425	1,489.769
Deferred financing costs	(197.822)	(191.610)	(218.368)	(179.186)	(173.149)	(167.112)	(161.110)
Dividend payable	164.773	186.836	208.404	230.912	253.649	274.395	297.575
Future income taxes	1,040.719	1,040.719	1,040.719	1,040.719	1,040.719	1,040.719	1,040.719
Related party amounts payable	-	-	-	-	-	598.348	613.348
Total liabilities	14,024.208	13,969.528	14,427.243	14,647.848	15,089.350	15,332.400	15,846.477
Equity							
Capital Stock							
Common Stock	9,500.000	9,500.000	9,500.000	9,500.000	9,500.000	9,500.000	9,500.000
Preferred Shares	1,990.000	1,990.000	1,990.000	1,990.000	1,990.000	1,990.000	1,990.000
Retained earnings	(13,922.694)	(15,896.843)	(15,896.843)	(15,896.843)	(15,896.843)	(15,896.843)	(15,896.843)
Dividends	(164.773)	(186.836)	(208.404)	(230.912)	(253.649)	(274.395)	(297.575)
Redemptions	-	-	-	-	-	-	-
YTD Net Income	(1,974.149)	(224.927)	(453.828)	(890.668)	(1,285.924)	(1,488.051)	(1,625.479)
Total equity	(4,571.615)	(4,818.605)	(5,069.075)	(5,528.423)	(5,946.416)	(6,169.288)	(6,329.896)
Total liabilities and equity	9,452.592	9,150.923	9,358.168	9,119.425	9,142.934	9,163.111	9,516.581
	-	-	0.00	0.00	-	(0.00)	0.00

INCOME STATEMENT

KK Precision Inc.

Income Statement C\$000's	Sep Prior Yr	Oct Act	Nov Act	Dec Act	Jan Act	Feb Act	Mar Act	YTD Total Act
Sales	577.611	547.664	547.521	497.205	666.262	632.891	651.678	3,543.221
Material	100.943	176.921	90.150	148.756	96.340	116.761	128.411	757.340
% of sales	17.5%	32.3%	16.5%	29.9%	14.5%	18.4%	19.7%	21.4%
Subcontracting	78.943	54.372	83.492	103.152	111.653	131.735	122.415	606.819
% of sales	13.7%	9.9%	15.2%	20.7%	16.8%	20.8%	18.8%	17.1%
Direct labour	101.998	98.066	93.746	82.870	113.122	91.125	89.794	568.722
Labour premium	16.767	9.246	7.259	6.060	7.962	3.169	20.391	54.087
Indirect labour	35.129	28.863	22.359	35.961	28.922	19.883	10.629	146.617
Vacation Pay								
% of sales	26.6%	24.9%	22.5%	25.1%	22.5%	18.0%	18.5%	21.7%
Inventory adjustments	20.249	(1.728)	10.844	7.495	5.469	(33.247)	(27.932)	(39.098)
Direct costs	354.028	365.740	307.849	384.294	363.469	329.425	343.709	2,094.4862
Direct contribution	223.583	181.924	239.673	112.911	302.793	303.465	307.969	1,448.735
% of sales	38.7%	33.2%	43.8%	22.7%	45.4%	47.9%	47.3%	40.9%
Salaries	94.641	103.190	96.765	109.605	108.232	94.693	106.980	619.465
Small tools	59.096	21.452	21.880	26.239	20.024	14.212	26.506	130.312
Shop supplies	21.788	8.392	15.427	10.317	13.993	13.967	12.678	74.774
Duty & Freight	16.619	22.247	18.918	16.438	16.261	21.465	19.475	114.804
Discounts/Concessions	1.435	0.000	0.000	2.000	0.999	3.600	2.019	8.618
Employee benefits	18.837	17.451	23.125	16.622	23.859	30.738	31.412	143.206
WSIB	5.306	5.018	6.027	3.919	5.059	5.029	5.195	30.247
Insurance	7.408	7.408	7.430	7.430	7.430	7.430	7.430	44.559
Rent	12.185	12.185	12.345	12.185	12.435	12.185	17.685	79.020
Utilities	22.460	10.719	14.880	13.545	17.651	13.931	19.931	90.656
Business & realty tax	5.515	5.515	5.515	5.515	5.515	5.515	5.515	33.089
Machine rental	1.747	1.606	1.552	1.606	1.552	1.445	1.445	9.205
Repairs and maintenance	12.623	17.540	12.610	13.162	10.499	16.778	14.583	85.172
Depreciation factory O/H	56.354	60.100	55.900	55.798	55.463	55.326	55.207	337.794
R&D ITC	(91.630)	(16.500)	(15.000)	(15.704)	(18.390)	(14.122)	(15.598)	(95.314)
Manufacturing incentives								-
Consulting	0.200	0.000	0.200	0.400	3.000	0.200	0.495	4.295
Computer maintenance	4.779	5.105	5.138	5.657	6.406	6.524	3.971	32.801
Security, Cleaning & Other	4.588	2.843	2.471	5.272	7.082	3.390	5.253	26.311
Misc. Revenue	(13.316)	(0.601)	(0.000)	(7.911)	0.000	(0.493)	(1.807)	(10.811)
(Gain) / Loss on sale of Fixed Assets	-	0.000	0.000	0.000	0.000	0.000	0.000	-
Over/Under Applied Burden	4.235	(29.429)	12.963	(55.578)	90.204	(2.362)	(54.798)	(39.000)
Factory overhead	244.871	254.242	298.146	226.514	387.275	289.452	263.575	1,719.204
Gross profit	(21.288)	(72.318)	(58.474)	(113.603)	(84.482)	14.013	44.395	(270.469)
% of sales	-3.7%	-13.2%	-10.7%	-22.8%	-12.7%	2.2%	6.8%	-7.6%
Selling salaries and commissions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Travel	6.539	14.877	5.633	4.652	6.655	2.572	5.706	40.096
Meals & Entertainment	1.833	0.999	1.295	2.368	1.343	0.330	1.299	7.635
Advertising and promotion	0.392	0.305	0.035	0.196	0.035	3.735	0.213	4.518
Depreciation selling & delivery	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Insurance - auto	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Selling and delivery	8.764	16.181	6.963	7.216	8.033	6.637	7.218	52.249
Management salaries & benefits	32.084	34.776	32.084	33.430	20.161	17.853	17.438	155.742
Office salaries	13.356	14.628	13.356	13.992	14.628	12.793	13.664	83.061
Director fees	2.500	2.500	2.500	0.000	0.000	0.000	0.000	5.000
Severance/Termination	5.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Staffing	12.000				20.000	0.000	0.000	20.000
General and office	3.571	3.315	4.074	7.478	4.476	4.439	3.282	27.064
Bad debt expense	(16.159)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Receivables Insurance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Consulting	11.538	11.538	11.538	12.162	21.069	12.369	12.369	81.046

INCOME STATEMENT

KK Precision Inc.

Income Statement C\$000's	Sep Prior Yr	Oct Act	Nov Act	Dec Act	Jan Act	Feb Act	Mar Act	YTD Total Act
Professional fees	9.666	8.623	5.700	3.000	4.066	14.888	3.805	40.082
Telephone	2.978	2.319	1.801	1.947	1.856	2.228	1.967	12.117
Donations	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PST refund	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Foreign Exchange Loss (Gain)	24.758	(9.676)	(8.684)	(5.664)	(25.858)	0.411	0.226	(49.245)
Depreciation G&A	1.263	1.263	1.263	1.263	1.224	1.224	1.224	7.461
Reorganization	40.257	-	33.811	219.352	203.890	74.399	34.000	565.451
Management fees	15.000	15.000	15.000	15.000	15.000	15.000	15.000	90.000
Goodwill write-down	12,748.605							
General and administrative	12,906.417	84.286	112.443	301.960	280.511	155.603	102.975	1,037.779
Interest expense - LTD	80.205	80.890	80.680	83.488	83.612	78.079	83.848	490.596
Interest expense - Other	8.074	8.202	8.055	8.189	8.431	8.571	8.149	49.596
Financing costs BS	6.367	6.212	6.212	6.212	6.037	6.037	6.003	36.712
	94.646	95.304	94.946	97.889	98.079	92.686	97.999	576.904
Total SG&A	13,009.828	195.772	214.352	407.065	386.624	254.927	208.192	1,666.932
Pre-tax income (loss)	(13,031.116)	(268.090)	(272.826)	(520.668)	(471.106)	(240.914)	(163.798)	(1,937.401)
Income taxes	0.000	(43.162)	(43.925)	(83.828)	(75.850)	(38.787)	(26.370)	(311.922)
%	0.0%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%
Net income (loss)	(13,031.116)	(224.927)	(228.901)	(436.840)	(395.256)	(202.127)	(137.428)	(1,625.479)

Normalized Pre-Tax Income (Loss)	(227.254)	(253.090)	(224.015)	(286.316)	(252.216)	(151.515)	(114.798)	(1,281.950)
EBITDA	(130.248)	(111.422)	(120.716)	(365.717)	(316.340)	(91.678)	(9.368)	(1,015.242)
Normalized EBITDA	(74.991)	(96.422)	(71.905)	(131.366)	(97.450)	(2.279)	39.632	(359.791)
EBITDA (inc ITCs)	(221.877)	(127.922)	(135.716)	(381.421)	(334.730)	(105.800)	(24.966)	(1,110.556)
Normalized EBITDA (Inc. ITCs)	(166.620)	(112.922)	(86.905)	(147.070)	(115.840)	(16.401)	24.034	(455.105)

TAB C

Exhibit "C" to the Affidavit of George Koulakian,
sworn before me this 28th day of May, 2014.

A handwritten signature in black ink, appearing to read "Christopher Blake Moran", written over a horizontal line.


Commissioner for Taking Affidavits, etc.

Christopher Blake Moran

Projected Weekly Cash Flow - Excluding Sale of Fixed and Intangible Assets																				TOTAL
(\$000's)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
Week ending	16-May	23-May	30-May	06-Jun	13-Jun	20-Jun	27-Jun	04-Jul	11-Jul	18-Jul	25-Jul	01-Aug	08-Aug	15-Aug	22-Aug	29-Aug	05-Sep	12-Sep	19-Sep	
Cash receipts																				
Collection of Opening WIP	\$ 750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750
Progress Payments on Production	-	285	285	285	285	285	285	285	285	285	285	285	285	285	-	-	-	-	-	3,706
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	145	145
Total Receipts	750	285	285	285	285	285	285	285	285	285	285	285	285	285	-	-	-	-	145	4,601
Cash disbursements																				
Overhead Payments	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(5)	(5)	(5)	(5)	(5)	(5)	(225)
Materials costs	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	-	-	-	-	-	-	(150)
Subcontractor costs	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	-	-	-	-	-	-	(500)
Payroll & Benefits	(173)	-	(131)	-	(131)	-	(131)	-	(126)	-	(125)	-	(125)	-	(125)	-	(35)	-	(5)	(1,108)
Rent & Property Taxes	(250)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(250)
Utilities	(20)	-	-	(20)	-	-	-	(20)	-	-	-	(20)	-	-	-	(20)	-	-	-	(100)
Insurance	-	-	(6)	-	-	-	-	(18)	-	-	-	(6)	-	-	-	(6)	-	-	-	(36)
Site Remediation Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(75)	-	-	-	-	(75)
Restructuring Fees	(220)	(50)	(55)	(20)	(55)	(15)	(55)	(17)	(20)	(15)	(20)	(14)	(10)	(19)	-	-	-	-	-	(630)
Other / Contingency	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(300)
Total Disbursements	(743)	(131)	(273)	(121)	(267)	(96)	(267)	(136)	(227)	(96)	(226)	(121)	(216)	(40)	(231)	(47)	(56)	(21)	(26)	(3,373)
Net Cash flow from Wind Down Operations	7	154	12	164	19	189	19	150	58	189	59	164	69	245	(231)	(47)	(56)	(21)	119	1,228
Other cash receipts																				
Collection of Opening A/R	1,225	-	144	18	25	3	1	10	93	3	17	5	38	-	-	-	-	-	-	1,582
Disbursements funded by Rolls Royce	60	25	-	-	25	-	51	25	-	-	25	-	-	-	300	-	-	-	-	512
Cost Reimbursement Relative to Cancelled Or	167	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	167
	1,452	25	144	18	50	3	52	35	93	3	42	5	38	-	300	-	-	-	-	2,261
Sale of assets																				
Tooling related to Rolls Royce Production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50	-	-	-	-	50
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50	-	-	-	-	50
Disbursements funded by Rolls Royce																				
Retention Payments	(50)	-	-	-	-	-	(51)	-	-	-	-	-	-	-	(222)	-	-	-	-	(323)
Vacation Payments	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	(79)	-	-	-	-	(89)
Pre-petition Trade A/P Payments	-	(25)	-	-	(25)	-	-	(25)	-	-	(25)	-	-	-	-	-	-	-	-	(100)
	(60)	(25)	-	-	(25)	-	(51)	(25)	-	-	(25)	-	-	-	(300)	-	-	-	-	(512)
Other cash disbursements																				
WEPPA Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)	-	-	-	-	(25)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)	-	-	-	-	(25)
Net Cash flow	1,399	154	157	183	43	193	20	159	151	192	75	170	107	245	(206)	(47)	(56)	(21)	119	3,002
Cash - opening	-	1,399	1,553	1,710	1,893	1,936	2,128	2,148	2,308	2,458	2,650	2,726	2,896	3,003	3,248	3,042	2,995	2,939	2,918	-
Cash - closing	1,399	1,553	1,710	1,893	1,936	2,128	2,148	2,308	2,458	2,650	2,726	2,896	3,003	3,248	3,042	2,995	2,939	2,918	3,002	3,002

TAB D

Exhibit “D” to the Affidavit of George Koulakian,
sworn before me this 28th day of May, 2014.

A handwritten signature in black ink, appearing to read 'Christopher Blake Moran', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Christopher Blake Moran

KKP ACQUISITION CORP.

- and -

BANK OF MONTREAL

CREDIT AGREEMENT

Made as of September 1, 2011



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CREDIT AGREEMENT

This Agreement is made this 1st day of September, 2011.

BETWEEN:

KKP ACQUISITION CORP.

- and -

BANK OF MONTREAL

WHEREAS Bank of Montreal has agreed to provide certain financial accommodation to the Borrower upon and subject to the terms and conditions contained in this Agreement;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the parties agree as follows:

ARTICLE I - INTERPRETATION

1.01 Definitions

In this Agreement, the following words and phrases shall have the meanings set forth below:

"Acceleration Date" means the earlier of: (i) the delivery by the Bank to the Borrower of written notice that an Event of Default (other than an Insolvency Event) has occurred and is continuing and that all Obligations have become immediately due and payable; and (ii) the occurrence of an Insolvency Default;

"Advance" means an extension of credit by the Bank to the Borrower under any Credit Facility pursuant to this Agreement, including for greater certainty an extension of credit in the form of a Loan, a Bankers' Acceptance or a Letter of Credit, or the extension of credit under the Risk Management Facility or the MasterCard Facility;

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified; notwithstanding the foregoing, all references to **"Affiliate"** in Article XII hereof only shall exclude River and each of River's Affiliates;

"Agreement" means this credit agreement as it may be amended, replaced or restated from time to time;

"Amalgamated Borrower" shall have the meaning ascribed thereto in the definition of Borrower/Target Amalgamation;

"Annual Excess Cash Flow" means, in respect of any Fiscal Year, EBITDA less (a) Total Funded Debt Service payments for such period, (b) Cash Taxes paid in cash for such period, (c) Unfunded Capital Expenditures for such period, (d) Management Fees, (e) directors' fees up to \$50,000 per Fiscal Year and (f) the fees and expenses actually paid and expensed by the Companies in connection with the consummation of the Target Acquisition up to the maximum aggregate amount of \$750,000;

"Applicable Law" means, in respect of any Person, property, transaction or event, all applicable laws, statutes, rules, by-laws and regulations and all applicable official directives, orders, judgments and decrees of Governmental Authorities having the force of law;

"Applicable Margin" means, in respect of any Availment Option, the percentage in the column relating to such Availment Option in the following table which corresponds to the Total Funded Debt to EBITDA Ratio in the first column which shall be determined on a quarterly basis (subject to the exception below contained in this definition) based on the Borrower's quarterly consolidated financial statements for the prior Fiscal Quarter:

Total Funded Debt to EBITDA Ratio:	Applicable Margin for Prime Rate Loans, and U.S. Dollar Base Rate Loans	Applicable Margin for Bankers' Acceptances and LIBOR Loans	Letter of Credit Fees	Standby Fees
less than or equal to 2.00:1	1.00%	2.25%	2.25%	0.50%
greater than 2.00:1 but less than or equal to 2.50:1	1.25%	2.50%	2.50%	0.50%
greater than 2.50:1 but less than or equal to 3.00:1	1.50%	2.75%	2.75%	0.50%
Greater than 3.00:1	1.75%	3.00%	3.00%	0.50%

provided that for greater certainty the Applicable Margin shall change quarterly upon delivery by the Borrower to the Bank of financial statements for the previously completed Fiscal Quarter; provided further that prior to the delivery to the Bank of the financial statements of the Amalgamated Borrower for its Fiscal Quarter ending December 31, 2011, the Applicable Margin shall be determined based on the Borrower's Total Funded Debt to EBITDA Ratio being deemed to be greater than 3.00:1;

"Availment Option" means a method of borrowing under any Credit Facility which is available to the Borrower as provided herein;

"Bank" means Bank of Montreal, a Canadian chartered bank;

"Bank Indemnities" has the meaning ascribed thereto in Section 13.04.

"Bankers' Acceptance" means a bill of exchange or a depository bill as defined in the *Depository Bills and Notes Act* (Canada) drawn by the Borrower and accepted by the Bank in respect of which the Borrower is obligated to pay the face amount thereof to the holder (which may be a third party or the Bank) upon maturity, and which is purchased by such holder at a discount agreed-upon between the Borrower and such holder;

"BMOCC" means BMO Capital Corporation;

"BMOCC Loan" means the loan to be made available by BMOCC to the Borrower to assist the Borrower to complete the Target Acquisition in the principal amount of \$4,500,000;

"Borrower" means KKP Acquisition Corp., or any successor thereto including by way of amalgamation;

"Borrower/Target Amalgamation" means the amalgamation of the Borrower, the Target and KKP on or about September 1, 2011 with the amalgamated corporation resulting from such amalgamation being called KK Precision Inc. (the **"Amalgamated Borrower"**);

"Business Day" means any day on which the main branch of the Bank in Toronto is open for normal banking business but specifically excluding any Saturday, Sunday or statutory holiday in the Province of Ontario; provided that, when used in connection with a LIBOR Loan, it shall also be a day on which banks are not required to close in London, England and dealings are carried on in the LIBOR Market;

"Canadian Dollar Loan" means an Advance under any Credit Facility made by the Bank to the Borrower by way of a loan in Canadian Dollars;

"Canadian Dollars" or **"\$"** or **"Cdn. \$"** means the lawful money of Canada;

"Capex Facility" has the meaning ascribed thereto in Section 4.01;

"Capex Facility Available Amount" means, the lesser of (i) an amount equal to seventy-five percent (75%) of the value of Eligible Capital Equipment and (ii) the Capex Facility Limit, as determined at such time;

"Capex Facility Limit" means Two Million Dollars (\$2,000,000);

"Capex Facility Maturity Date" means September 1, 2016;

"Capital Expenditures" means expenditures in respect of the purchase, lease, license, acquisition, erection, development, improvement or construction of capital assets which are required to be capitalized in accordance with GAAP;

"Cash Taxes" in respect of any fiscal period means amounts actually paid by the Companies in such fiscal period in respect of income and capital taxes (whether relating to such fiscal period or any other fiscal period);

"CDOR Rate" means on any day the annual rate of interest which is the rate determined as being the arithmetic average (rounded to the nearest one hundred-thousandth of one percent

(with 0.000005 being rounded up)) of the quotations of all institutions listed in respect of the rate for Canadian dollar denominated bankers' acceptances for the relevant period displayed and identified as such on the "Reuters Screen CDOR Page" (as defined in the International Swap Dealer Association, Inc. definitions, as modified and amended from time to time) as of 10:00 A.M. Toronto, Ontario local time on such day and, if such day is not a Business Day, then on the immediately preceding Business Day (as adjusted by the Bank after 10:00 A.M. Toronto, Ontario local time to reflect any error in a posted rate of interest or in the posted average annual rate of interest). If such rates are not available on the Reuters Screen CDOR Page on any particular day, then the CDOR Rate on that day shall be calculated as the arithmetic mean (rounded to the nearest one hundred-thousandth of one percent (with 0.000005 being rounded up)) of the rates applicable to Canadian dollar denominated bankers' acceptances for the relevant period publicly quoted for customers in Canada by the Bank as of 10:00 A.M. Toronto, Ontario local time on such day; or if such day is not a Business Day, then on the immediately preceding Business Day;

"Change of Control" means if Fund ceases to own, directly or indirectly, legally and beneficially, 51% of the issued and outstanding capital stock of the Borrower (or the Amalgamated Borrower after the Borrower/Target Amalgamation);

"Companies" means the Borrower and all of its Subsidiaries from time to time; and **"Company"** means any one of the Companies as the context requires;

"Compliance Certificate" means a certificate of the Borrower in the form of Exhibit "E";

"Control" means, in respect of any Person, the power to direct or cause the direction of management and policies of such Person, directly or indirectly, through the ownership of voting securities, contract or otherwise; and each of **"Controlled"** and **"Controlling"** has a corresponding meaning;

"Conversion" means the substitution of one Availment Option for another;

"Conversion Notice" means a notice substantially in the form of Exhibit "C" given by the Borrower to the Bank for the purposes of requesting a Conversion;

"Credit Facilities" means the credit facilities established by the Bank for the Borrower, respectively, pursuant to this Agreement; and **"Credit Facility"** means any of them as the context requires;

"Deemed Risk" means, in respect of an FEFC or an Interest Rate Management Product at any time, the greater of: (i) the unwinding costs thereof determined at such time in accordance with the provisions of the contract relating thereto (or in the absence of such provisions, as determined by the Bank acting reasonably); and (ii) a percentage of the notional amount of such FEFC or Interest Rate Management Product as determined by the Bank from time to time as the percentage it will use to allocate risk to FEFCs or Interest Rate Management Products having similar notional amounts and maturities;

"Default" means an event which has occurred and which, with the giving of notice or the lapse of time or both, would constitute an Event of Default;

"Distribution" means, with respect to any Company, any payment made by such Company to or on behalf of its shareholders (including without limitation unitholders in the case of a limited partnership) or to any Related Person thereto or to any officer, director or employee thereof by any direct or indirect means whatsoever, including payments in respect of salary, bonuses, commissions, employee loans, Management Fees, other management fees, directors' fees, dividends, return on capital, distributions, investments, advances, loans, the redemption or purchase for cancellation of shares or partnership units, and payments on account of principal, interest or fees in respect of indebtedness due by such Company to such persons; and whether payments are made to such persons in their capacity as shareholders, directors, officers, employees, creditors or otherwise; provided that any payment of salary or commissions to employees or management in the ordinary course of business and in accordance with such Company's historical practice shall not be considered a "Distribution" hereunder;

"Drawdown Notice" means a notice substantially in the form of Exhibit "A" given by the Borrower to the Bank for the purpose of requesting an Advance under a Credit Facility;

"EBITDA" means, in respect of any fiscal period, the consolidated net income of the Borrower in such fiscal period plus (x) without duplication and to the extent deducted in determining net income for such period, the sum of (i) Interest expense for such period, (ii) income tax expense for such period, (iii) all Management Fees (up to the maximum amount of \$210,000), (iv) all amounts attributable to depreciation and amortization expense for such period, (v) the fees and expenses paid by the Companies in connection with the consummation of the Target Acquisition, the Borrower Amalgamation, this Agreement and the BMOCC Loan (including any Management Fee in the amount of \$450,000), (vi) all non-cash losses in connection with foreign currency translation adjustments in connection with the Loans and the BMOCC Loan, (vii) all director's fees up to \$50,000 per Fiscal Year and (viii) any extraordinary non-cash or non-recurring charges for such period which are satisfactory and approved by the Bank acting reasonably (excluding any loss or charge from any sale, transfer, lease or other disposition of assets during such period), minus (y) without duplication and to the extent included in net income for such period, the sum of any extraordinary non-cash or non-recurring gains for such period and any non-cash items of income for such period (excluding any gain from any sale, transfer, lease or other disposition of assets during such period and all gains in connection with foreign currency translation adjustments in connection with the Loans and the BMOCC Loan); all determined in accordance with GAAP; provided, however, that the parties agree that for purposes of computing and testing financial covenants hereunder, EBITDA for the Fiscal Quarters ending December 31, 2010, March 31, 2011 and June 30, 2011 shall be \$992,343, \$849,824 and \$1,068,276, respectively;

provided that:

- (a) in respect of each Company which has become a Subsidiary of the Borrower in such fiscal period, the determination of EBITDA shall include the net income of such Company before deduction of Interest, income taxes, extraordinary items which are satisfactory and approved by the Bank, depreciation, amortization and non-cash charges as if such Company had been a Subsidiary of the Borrower during such fiscal period (notwithstanding that such Company may not have been a Subsidiary of the Borrower for the entirety of such fiscal period), and all historical expenses of a non-recurring

nature which are satisfactory and acceptable to the Bank incurred by such Company during such period shall be added back; and

- (b) in respect of each Company which has ceased to be a Subsidiary of the Borrower in the immediately preceding twelve month period, EBITDA shall be determined as if such Company had not been a Subsidiary of the Borrower during such fiscal period;

"**Eligible Accounts**" means, at any time, the aggregate of all book debts and accounts receivable of, and any other amounts then payable to, the Borrower, in the ordinary course of its business for which an invoice has been sent to a purchaser or obligor thereof; provided that in no event shall an account receivable be deemed an Eligible Account unless all representations and warranties set forth in the Loan Documents with respect thereto are true and correct and such account receivable:

- (a) arises out of the sale by the Borrower of finished goods or raw material inventory delivered to and accepted by, or out of the rendition of services fully performed by the Borrower and accepted by, the account debtor on such account receivable, and such account receivable otherwise represents a final sale;
- (b) the account debtor on such account receivable is located within Canada or the United States of America or, if such right has arisen out of the sale of such goods shipped to an account debtor located in any other country, either such right is secured by a valid and irrevocable letter of credit pursuant to which the Borrower may draw on a lender acceptable to the Bank for the full amount thereof or such account receivable is supported by credit insurance acceptable to the Bank (and naming the Bank as loss payee);
- (c) is the valid, binding and legally enforceable obligation of the account debtor obligated thereon and such account debtor is not (i) a Subsidiary or an Affiliate of the Borrower, (ii) a shareholder, director, officer or employee of the Borrower, as the case may be, (iii) Canada, or any province or political subdivision thereof, or any department, agency or instrumentality of any of the foregoing unless the Borrower has complied with the *Financial Administration Act* (Canada) or any similar provincial or local statute, as the case may be, to the satisfaction of the Bank, (iv) a debtor under any proceeding or which has taken any action under the *Bankruptcy and Insolvency Act* (Canada) or the *Companies' Creditors Arrangement Act*, each as amended, or any other comparable bankruptcy, insolvency or reorganization law or a debtor which is the subject of any receivership proceeding, or (v) an assignor for the benefit of creditors;
- (d) is not evidenced by an instrument or chattel paper unless the same has been endorsed and delivered to the Bank;
- (e) is an asset of the Borrower to which it has good and marketable title, is freely assignable, is subject to a perfected, first priority Lien in favour of the Bank, and is free and clear of any other Lien other than Permitted Liens;
- (f) is not subject to any defence and is net of any credit or allowance given by the Borrower to such account debtor or if such account debtor is also a creditor or supplier of the Company is net of any offset or counterclaim with respect thereto;

- (g) no surety bond was required or given in connection with said account receivable or the contract or purchase order out of which the same arose;
- (h) is not unpaid more than sixty (60) days after the original due date for any invoice;
- (i) is not unpaid more than one hundred and twenty (120) days from the invoice date;
- (j) is not a doubtful account or an account in dispute;
- (k) does not arise from a sale to an account debtor on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, contra account consignment or any other repurchase or return basis; and
- (l) is otherwise acceptable to the Bank in its discretion acting reasonably;

"Eligible Bank Approved Accounts" means Eligible Accounts with respect to which the account debtor has been approved by the Bank in writing from time to time and is an investment grade company with a rating of BBB - or better by Standard & Poor's Corporation or Baa3 or better by Moody's Investors Service; as of the date hereof, Pratt & Whitney, Rolls Royce, Siemens, General Electric and SNC Lavalin (including any Subsidiaries thereof and Atomic Energy of Canada) have been so approved by the Bank;

"Eligible Capital Equipment" means, at any time, Equipment of the Borrower valued at cost determined at such time, which the Bank, in its discretion acting reasonably, deems to be eligible for borrowing base purposes; provided that in no event shall Equipment be deemed Eligible Capital Equipment unless all representations and warranties set forth in the Loan Documents with respect thereto are true and correct and such Equipment:

- (a) is owned by the Borrower and the Borrower has the right to subject it to a security interest in favour of the Bank;
- (b) is not in transit and is located on the Owned Properties or Leased Properties in respect of which a Landlord Agreement has been received;
- (c) is not subject to any prior Lien other than Permitted Liens, and is subject to a valid first ranking security interest in favour of the Bank which is properly perfected in the province in which such Equipment is located;
- (d) is not Equipment which, the Bank has reasonably determined in accordance with its customary business practices, is unacceptable due to immateriality, obsolescence, age, type, category, condition or quality; for greater certainty, damaged or defective Equipment shall not be acceptable as Eligible Capital Equipment; and
- (e) is not Equipment which violates any of the covenants of the Borrower contained in this Agreement or any other Loan Document;

"Eligible Cdn./U.S. Accounts" means Eligible Accounts with respect to which the account debtor has its principal place of business in Canada or the United States;

"Eligible Insured Accounts" means Eligible Accounts, the repayment of which is guaranteed by a Receivables Policy for the benefit of the Bank;

"Eligible Inventory" means, at any time, the inventory of raw materials and finished goods manufactured, fabricated or purchased for resale, lease or use by the Borrower, in the ordinary course of its business for which an identifiable market is discernable, in each case valued at a lower of cost and net realizable value determined at such time, which the Bank, in its discretion, deems to be eligible for borrowing base purposes; provided that in no event shall inventory be deemed Eligible Inventory unless all representations and warranties set forth in the Loan Documents with respect thereto are true and correct and such inventory:

- (a) is an asset of the Borrower to which it has good and marketable title, is freely assignable, is subject to a perfected, first priority Lien in favour of the Bank and is free and clear of any other Lien other than Permitted Liens, and is free and clear of potential inventory supplier rights under Section 81.1 of the *Bankruptcy and Insolvency Act* (Canada) or any other applicable statutory rights or claims of suppliers to the Company;
- (b) is not on consignment and is located at the premises of the Borrower in Canada and, in the case of premises not owned by the Borrower, which are at all times subject to a Landlord Agreement; however, failing such Landlord Agreements being delivered to the Bank in the case of any Leased Premises, the inventory at such premises shall not be ineligible but the Operating Facility Available Amount shall at all times be reduced by an amount equal to three (3) months' gross rent payable by the Borrower in respect of such leased premises until a Landlord Agreement is obtained with respect to such leased premises;
- (c) is not supplied by or paid for by the Borrower's customers;
- (d) is of good and merchantable quality free from any defects which might adversely affect the market value thereof; and
- (e) is not in a condition that is obsolete, damaged or otherwise unmerchantable;

"Equipment" means all present and future machinery, equipment, furniture, fixtures, vehicles, tools, parts and attachments in which the Borrower has any interest (including any installation costs or other costs that are capitalized in accordance with GAAP);

"Equivalent Amount" means, in relation to an amount in one currency, the amount in another currency that could be purchased by the amount in the first currency determined by reference to the applicable Exchange Rate;

"Eurodollars" means U.S. Dollars loaned in the LIBOR Market;

"Event of Default" has the meaning ascribed in Section 12.01;

"Exchange Rate" in connection with any amount of Canadian Dollars to be converted into another currency pursuant to this Agreement for any reason, or vice-versa, means the Bank's spot rate of exchange for converting Canadian Dollars into such other currency or vice-versa, as

the case may be, quoted as the offering rate for wholesale transactions by the Bank at approximately noon (Toronto time) on the effective date of such conversion;

"Federal Funds Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of one percent) of the per annum interest rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers as published in respect of such day on the next succeeding Business Day by the Federal Reserve Bank of New York or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of one percent) of the quotations for such day for such transactions received by the Bank from three Federal Funds brokers of recognized standing selected by it;

"FEFC" means a foreign exchange forward contract or foreign currency option agreement entered into by the Bank or any of the Bank's Affiliates and the Borrower in connection with the management of currency risk;

"Fiscal Quarter" means a fiscal quarter of the Borrower and after the Borrower/Target Amalgamation, a fiscal quarter of the Amalgamated Borrower;

"Fiscal Year" means a fiscal year of the Borrower, and after the Borrower/Target Amalgamation, a fiscal year of the Amalgamated Borrower;

"Fixed Charge Coverage Ratio" means, in respect of any Fiscal Quarter, the ratio of: (i) EBITDA in the fiscal period comprised of such Fiscal Quarter and the immediately preceding three Fiscal Quarters less Cash Taxes paid in cash by the Companies, Distributions (including management fees) paid in cash by any Company to any Related Person (for greater certainty, including the Management Fees), and Unfunded Capital Expenditures for such period; to (ii) Total Funded Debt Service in respect of the fiscal period comprised of such Fiscal Quarter and the immediately preceding three Fiscal Quarters; provided that, up to \$750,000 of Relocation Costs or relocation Capital Expenditures may be added back to EBITDA for the purposes of calculating the Fixed Charge Coverage Ratio only, which add back may only be made one time in respect of the year in which the relocation occurs;

"Fund" means River VI, L.P. and a partnership to be formed and managed by River Associates VI, LLC, currently contemplated to be called River VI Parallel, L.P.;

"GAAP" means generally accepted accounting principles in Canada as approved by the Canadian Institute of Chartered Accountants in effect from time to time until such time as the Borrower adopts the International Financial Reporting Standards ("**IFRS**") and thereafter, IFRS and its interpretations adopted by the International Accounting Standards Board;

"Governmental Authority" means any: (i) federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the foregoing; or (iii) any quasi-governmental, judicial or administrative body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

"Guarantee" means any agreement by which any Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes

liable upon, the obligation of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person or otherwise assures any creditor of such Person against loss, and shall include, without limitation, any contingent liability under any letter of credit or similar document or instrument;

"Hazardous Materials" means any contaminant, pollutant, waste or substance that is likely to cause immediately or at some future time harm or degradation to the surrounding environment or risk to human health; and without restricting the generality of the foregoing, including any pollutant, contaminant, waste, hazardous waste or dangerous goods that is regulated by any Requirements of Environmental Law or that is designated, classified, listed or defined as hazardous, toxic, radioactive or dangerous or as a contaminant, pollutant or waste by any Requirements of Environmental Law;

"Initial Post-Target Acquisition Advance" has the meaning ascribed thereto in Section 11.02;

"Insolvency Default" means an Event of Default described in Section 12.01(h) or (i);

"Insolvency Legislation" means legislation in any applicable jurisdiction relating to reorganization, arrangement, compromise or re-adjustment of debt, dissolution or winding-up, or any similar legislation, and specifically includes for greater certainty the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada) and the *Bankruptcy Code* (United States), and in each case, any legislation similar to or enacted in replacement of the foregoing from time to time;

"Intellectual Property" has the meaning ascribed in Section 8.01(j).

"Interest" means interest on loans, stamping fees in respect of bankers' acceptances, the difference between the proceeds received by the issuers of bankers' acceptances and the amounts payable upon the maturity thereof, issuance fees in respect of letters of credit, the interest component or imputed interest on capital leases and any other charges or fees in connection with the extension of credit which are determined by reference to the amount of credit extended, plus standby fees in respect of the unutilized portion of any credit facility; but for greater certainty "Interest" shall not include agency fees, arrangement fees, structuring fees, fees relating to the granting of consents, waivers, amendments, extensions or restructurings, the reimbursement of costs and expenses, and any similar amounts which may be charged from time to time in connection with the establishment, administration or enforcement of credit facilities;

"Interest Rate Management Product" means an agreement which may be entered into between the Bank or any of the Bank's Affiliates and the Borrower in connection with the management of interest rate risk, specifically including, without limiting the generality of the foregoing, interest rate exchange agreements (commonly known as "interest rate swaps") and forward rate agreements;

"Investment" includes the acquisition or holding of capital stock or other equity interests or debt obligations of any Person (including a loan or advance to any such Person), the acquisition or holding of an interest (partnership or otherwise) or joint venture interest in any Person, a contribution of capital to any Person, an investment made or held by a Person, directly or indirectly, in another Person (whether such investment was made by the first-mentioned Person

in such other Person or was acquired from a third party), the assumption of liabilities (contingent or otherwise) of any Person, and a purchase or other acquisition of assets (or any interest therein, such as a royalty interest) comprising all or a portion of the assets used in connection with a business; but for greater certainty, the provision of services by a Company to any other Person (including another Company) in the ordinary course of business on usual payment terms shall not constitute an Investment;

"Judgment Currency" has the meaning ascribed in Section 12.06.

"KKP" means KK Precision Inc. and its successors;

"Landlord Agreement" means, in respect of any real property leased by a Company from a landlord pursuant to a lease, an agreement given by the landlord in favour of the Bank which provides, among other things, that such landlord consents to the granting of a security interest in the lease by the Company to the Bank, agrees to give written notice to the Bank in respect of and a reasonable opportunity to cure any default before terminating the lease, and agrees to permit the Bank or any agent appointed by it to enter upon the leased premises at any time (before or after a default under a termination of the lease) to remove, and to waive any distraint rights against, all property and assets (including inventory, equipment and books and records and computers, computer disks and other electronic information in any form whatsoever), such agreement to be in form and substance satisfactory to the Bank;

"Leased Properties" means those real properties leased by the Companies, respectively, listed in Schedule 8.01(h) attached hereto;

"Letter of Credit" means a commercial letter of credit or letter of guarantee, issued by the Bank in favour of any Person at the request and for the account of the Borrower;

"LIBO Rate" means, in respect of a LIBOR Loan made by the Bank, the interest rate per annum determined by the Bank for the applicable LIBOR Period being the rate at which U.S. dollar deposits for similar amounts and maturities are offered to the Bank by leading international banks in the LIBOR Market;

"LIBOR Loan" means an Advance made by the Bank to the Borrower by way of a loan in U.S. Dollars, in respect of which the Borrower is obliged to pay interest based upon the LIBO Rate;

"LIBOR Market" means the London interbank Eurodollar offering market;

"LIBOR Period" means the period commencing on the date of the making of an Advance by way of a LIBOR Loan and ending on the anticipated maturity date of such LIBOR Loan;

"Lien" means: (i) a lien, charge, hypothec, mortgage, pledge, security interest, priority, prior claim, conditional sale agreement or other title retention arrangements; (ii) an assignment, lease, consignment, trust or deemed trust that secures payment or performance of an obligation; (iii) a garnishment; (iv) a defect of title; (v) any other lien of any kind; and (vi) any commitment or agreement to enter into or grant any of the foregoing;

"Loan" means a Canadian Dollar Loan, a U.S. Dollar Loan or a LIBOR Loan;

"Loan Documents" means this Agreement, the Security, any FEFCs and Interest Rate Management Products made between the Borrower and the Bank, any Letter of Credit application and indemnity agreement and all other agreements, documents, instruments, certificates, notices and assurances delivered in connection herewith or therewith;

"Management Agreement" means the agreement dated as of September 1, 2011 between Borrower and River;

"Management Fees" means all management, consulting and advisory fees payable from time to time by the Borrower to River pursuant to Sections 3 and 4 of the Management Agreement;

"MasterCard Facility" is defined in Section 6.01;

"MasterCard Facility Limit" means Twenty-Five Thousand Dollars (\$25,000);

"Material Adverse Change" means, in respect of any Company, any change or event which in the opinion of the Bank acting reasonably, constitutes a material adverse change in (i) the business, operations, condition (financial or otherwise), assets or properties of such Company, (ii) the enforceability of any Loan Document against the party(ies) thereto, (iii) any Lien constituted or created by any Security or the priority thereof, or any change or event which could constitute a material adverse change therein, (iv) such Company's ability to timely and fully perform its obligations under any Loan Document to which it is a party, or (v) the ability of the Bank to enforce its rights and remedies under this Agreement or the other Loan Documents;

"Material Agreement" means, in respect of any Company, an agreement made between such Company and another Person which in the reasonable opinion of the Bank: (i) is material to the business of such Company; and (ii) if terminated would result, or would have a reasonable likelihood of resulting, in an Event of Default or a Material Adverse Change in respect of such Company; for greater certainty, and without limiting the generality of the foregoing, as at the date of this Agreement, each agreement listed in Schedule 8.01(i) is a Material Agreement;

"Minor Title Defects" in respect of any parcel of land means defects or irregularities in the title to such land (specifically including easements, rights of way, servitudes and similar rights in land granted to or reserved by other Persons) which are of a minor nature and in the aggregate will not materially affect the Security or materially impair the use of such land for the purposes held by the owner thereof;

"OBCA" means the *Business Corporations Act* (Ontario) as it may be amended from time to time;

"Obligations" means, at any time, (i) all direct and indirect, contingent and absolute obligations and liabilities of the Borrower (specifically including indebtedness and obligations owing to the Borrower under the MasterCard Facility) to the Bank or any of the Bank's Affiliates under or in connection with this Agreement and the Security or any of the other Loan Documents (or if the context requires, in respect of any Credit Facility) at such time, specifically including the Outstanding Advances and all accrued and unpaid interest thereon (specifically including indebtedness owing by the Borrower under the MasterCard Facility), and all fees, expenses and other amounts payable pursuant to this Agreement, the Security and the other Loan Documents; plus (ii) the Risk Management Obligations (if any) at such time; plus (iii) the treasury

and cash management services provided by the Bank or any of the Bank's Affiliates to the Borrower;

"Operating Facility" has the meaning ascribed in Section 2.01;

"Operating Facility Available Amount" means, the lesser of (i) the Operating Facility Margin Amount and (ii) the Operating Facility Limit, as determined at such time;

"Operating Facility Limit" means Four Million Dollars (\$4,000,000);

"Operating Facility Margin Amount" means, on any date, an amount equal to the aggregate, without duplication, of (i) ninety percent (90%) of the Bank's valuation of the Eligible Insured Accounts plus (ii) eighty percent (80%) of the Bank's valuation of the Eligible Bank Approved Accounts plus (iii) seventy-five percent (75%) of the Bank's valuation of the Eligible Cdn./U.S. Accounts plus (iv) fifty percent (50%) of the Bank's valuation of the Eligible Inventory (provided that the maximum amount as contemplated by this clause (iv) is and shall at all times be less than or equal to the amount equal to the aggregate, without duplication, of paragraphs (i), (ii) and (iii) of this definition), less reserves and potential prior ranking claims established by the Bank from time to time in its discretion (which include deemed trusts arising from unpaid taxes, government remittances, prior ranking payables, vacation pay, employee pensions and other Statutory Liens);

"Operating Facility Maturity Date" means September 1, 2016;

"Outstanding Advances" means at any time, the outstanding amount of all Advances made to the Borrower under the Credit Facilities (or if the context requires, in respect of any Credit Facility), determined as follows: (i) in the case of Prime Rate Loans, the principal amount thereof; (ii) in the case of Bankers' Acceptances, the face amount thereof; (iii) in the case of Letters of Credit, the face amount thereof; (iv) in the case of U.S. Base Rate Loans, the Equivalent Amount thereof in Canadian Dollars; (v) in the case of LIBOR Loans, the Equivalent Amount thereof in Canadian Dollars; (vi) in the case of FEFCs, the Deemed Risk thereof; (vii) in the case of Interest Rate Management Products, the Deemed Risk thereof; and (viii) in the case of the MasterCard Facility, the amount owing by the Borrower thereunder at such time;

"Owned Properties" means those real properties owned by the Companies, respectively, listed in Schedule 8.01(g) attached hereto;

"Pension Plan" means a pension plan or pension benefit plan applicable to employees of any Company which is subject to funding requirements established by applicable pension benefits legislation in any jurisdiction;

"Permitted Liens" means:

- (a) Statutory Liens not at the time overdue, or which are overdue but the validity of which is being contested in good faith and in respect of which reserves satisfactory to the Bank have been established;

- (b) Liens for taxes, duties and assessments which may be overdue but the validity of which is being contested in good faith and in respect of which reserves satisfactory to the Bank have been established;
- (c) Liens or rights of distress reserved in or exercisable under any lease for rent or for compliance with the terms of such lease (provided that the recognition of such Liens or rights as a permitted encumbrance shall not prejudice the priority of the Security over such Liens or rights as determined in accordance with applicable law);
- (d) any obligations or duties affecting any lands due to any public utility or Governmental Authority with respect to any franchise, grant, licence or permit and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands under government permits, leases or other grants; which obligations, duties and defects in the aggregate do not materially impair the use of such property, structures or facilities for the purpose for which they are held;
- (e) Liens incurred or deposits made in connection with contracts, bids, tenders or expropriation proceedings, or to secure workers' compensation, unemployment insurance or other social security obligations, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, warehousemen's, carriers' and other similar Liens and deposits;
- (f) Liens given to a public utility or Governmental Authority to secure obligations incurred to such utility, municipality, government or other authority in the ordinary course of business;
- (g) Liens and privileges arising out of judgments or awards in respect of which: an appeal or proceeding for review has been commenced; a stay of execution pending such appeal or proceedings for review has been obtained; and reserves satisfactory to the Bank have been established;
- (h) any mechanic's, labourer's, materialman's statutory or other similar Lien arising in the ordinary course of business or out of the construction or improvement of any lands or arising out of the furnishing of materials or supplies therefor, the action to enforce which has not proceeded to a final judgment;
- (i) undetermined or inchoate Liens incidental to the normal business operations of a Company not at the time overdue, or which are overdue but have not been filed against such Company or any of its properties pursuant to applicable law and the validity of which is being contested in good faith and reserves satisfactory to the Bank have been established;
- (j) Minor Title Defects;
- (k) Purchase-Money Security Interests up to the maximum aggregate amount of \$500,000 incurred in connection with the purchase or leasing of capital equipment, except to the extent that any such purchase or leasing of capital equipment is not in compliance with the restrictions on capital expenditures set out in paragraph 9.03(b);

- (l) Liens securing Subordinated Debt of any Company to the extent such Subordinated Debt is specifically permitted under Section 9.02(a) hereof and the Bank has specifically consented in writing to the granting of Liens in favour of the holder of such Subordinated Debt;
- (m) the Specific Permitted Liens, provided that such Liens charge only leased equipment and any proceeds therefrom (and provided further that the indebtedness owing in respect of such Liens is otherwise permitted hereunder) and perfected by the financing statement registrations or the equivalent in other relevant jurisdictions with the particulars listed on Schedule 8.01(f) (the Borrower hereby represents and warrants to the Bank, with respect to itself and also with respect to each of its Subsidiaries, that such Specific Permitted Liens listed/perfected by the registrations on Schedule 8.01(f) relate solely to equipment leased from such secured parties and the proceeds therefrom and that any such Liens do not charge or create a Lien against any other property, assets or undertaking of the Borrower or such applicable Subsidiary, as the case may be, other than such specific equipment and the proceeds therefrom);
- (n) Liens in favour of the Bank; and
- (o) Liens consented to in writing by the Bank;

provided that the use of the term "Permitted Liens" to describe such interests and Liens shall mean that they are permitted to exist (whether in priority to or subsequent in priority to the Security, as determined by applicable law), and shall not be interpreted as meaning that such interests and Liens are entitled to priority over the Security;

"Person" includes an individual, corporation, partnership, trust, unincorporated association, Governmental Authority or any combination of the above or any other entity whatsoever;

"Prepayment" means a Repayment voluntarily made by the Borrower under the Term Facility or the Capex Facility, which is not a scheduled Repayment thereunder;

"Prime Rate" means the greater of (i) the floating annual prime rate of interest established from time to time by the Bank as the base rate it will use to determine rates of interest on Canadian dollar loans to customers in Canada, and (ii) the rate of interest established by the Bank as its 30-day Bankers' Acceptance rate applicable on such day plus one percent (1.0%);

"Prime Rate Loan" means any Loan denominated in Canadian Dollars with respect to which interest is calculated under this Agreement based on the Prime Rate;

"Purchase-Money Security Interest" means a Lien on any property created, issued or assumed to secure the unpaid purchase price in respect of such property, provided that such Lien is restricted to such property acquired and secures an amount not in excess of the purchase price thereof;

"Receivables Policy" means an accounts receivable insurance policy to be issued to the Borrower by an insurance provider satisfactory to the Bank, in form and scope satisfactory to the Bank;

"Related Person" in relation to any Person means any subsidiary, affiliate or associate (as such terms are defined in the OBCA) of such Person;

"Relocation Costs" means relocation costs approved by the Bank in writing, which costs must be included in a business plan delivered to the Bank pursuant to Section 9.04(d) prior to being incurred;

"Repayment" means a repayment by the Borrower on account of the Outstanding Advances under all Credit Facilities or under a Credit Facility, as the context requires;

"Repayment Notice" means a notice delivered by the Borrower to the Bank in the form of Exhibit "D" committing the Borrower to make a Repayment in respect of any Advance (other than an Overdraft);

"Requirements of Environmental Law" means, all present and future (i) obligations under common law, (ii) Applicable Law, (iii) requirements announced by a Governmental Authority as having immediate effect (provided that at the time of making such announcement the government also states its intention of enacting legislation to confirm such requirements retroactively), (iv) all directives, policies and guidelines issued by any Governmental Authority charged with the administration thereof which purport to have the force of law, and (v) all requirements imposed under any clean-up, compliance or other order made pursuant to any of the foregoing, relating to environmental, health or safety matters including, but not limited to, all such obligations and requirements which relate to (a) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation and (b) exposure to Hazardous Materials;

"Risk Management Facility" has the meaning ascribed thereto in Section 5.01;

"Risk Management Obligations" means all obligations of the Borrower to the Bank or any of the Bank's Affiliates pursuant to or arising under the Risk Management Facility in connection with FEFCs and Interest Rate Management Products made between the Borrower and the Bank or any of the Bank's Affiliates;

"River" means River Associates Investments, LLC;

"Rollover" means the renewal of an Advance upon its maturity in the same form;

"Rollover Notice" means a notice substantially in the form of Exhibit "B" given by the Borrower to the Bank for the purpose of requesting a Rollover;

"Security" means the security required to be provided pursuant to Article X, and all other security, documents and agreements delivered by the Companies and other Persons (or any one or more of them) to the Bank from time to time as security for the payment and performance of the Obligations, and the security interests, mortgages, charges, hypothecs, assignments and Liens constituted by the foregoing;

"Senior Funded Debt" means, at any time, the Total Funded Debt of the Borrower on a consolidated basis, other than (i) Subordinated Debt and (ii) the redemption price of any

securities issued by the Companies having attributes substantially similar to debt (such as securities which are redeemable at the option of the holder);

"Senior Funded Debt to EBITDA Ratio" means, in respect of any Fiscal Quarter, the ratio of Senior Funded Debt at the end of such Fiscal Quarter to EBITDA in such Fiscal Quarter, in each case comprised of such Fiscal Quarter and the immediately preceding three Fiscal Quarters;

"Shareholder Agreement" means the shareholder agreement dated September 1, 2011 by and among the Borrower and the entities and individuals listed therein as "Shareholders" of the Borrower;

"Specific Permitted Liens" means the Liens described in Schedule 8.01(f);

"Statutory Liens" means Liens in respect of any property or assets of a Company created by or arising pursuant to any applicable legislation including in favour of any Person (such as but not limited to a Governmental Authority), including Liens arising in connection with such Company's obligation to deduct and remit employee source deductions and goods and services tax pursuant to the *Income Tax Act* (Canada), the *Excise Tax Act* (Canada), the *Canada Pension Plan* (Canada), the *Employment Insurance Act* (Canada) and in each case, any legislation similar to or enacted in replacement of the foregoing from time to time;

"Subordinated Debt" in respect of any Company to any Person means any indebtedness of such Company to any Person (other than another Company) for borrowed money, in respect of which the holder thereof has entered into a subordination agreement in form and substance satisfactory to the Bank, registered in all places where necessary or desirable to protect the priority of the Security, which shall provide (among other things) that: (i) the holder of such indebtedness may not receive any payments on account of principal or interest thereon (except to the extent, if any, expressly permitted therein); (ii) any Liens held in respect of such indebtedness are subordinated to the Security; and (iii) the holder of such indebtedness may not take any enforcement action in respect of such indebtedness or Liens without the prior written consent of the Bank (except to the extent, if any, expressly permitted therein);

"Subsidiary" means a Business Entity which is Controlled by another Business Entity (for purposes of this definition, **"Business Entity"** means a corporation, company, partnership, limited partnership, trust, joint venture or any other type of artificial Person) including without limitation a subsidiary as such term is defined in the OBCA (and for greater certainty includes a subsidiary of a subsidiary);

"Target" means Precinda Inc. and its successors;

"Target Acquisition" means the acquisition by the Borrower of all of the capital stock of the Target (and indirectly KKP) pursuant to the Target Purchase Agreement;

"Target Purchase Agreement" means the share purchase agreement dated September 1, 2011 by and among, *inter alia*, the Borrower, the Vendor, Target and KKP in respect of the sale to the Borrower of all of the capital stock of the Target owned by the Vendor, as such agreement may have been or may hereafter be amended, restated or replaced from time to time;

"Term Facility" has the meaning ascribed thereto in Section 3.01;

"Term Facility Limit" means Seven Million Dollars (\$7,000,000);

"Term Facility Maturity Date" means September 1, 2016;

"Total Funded Debt" means all obligations of the Companies to pay (in whole or in part) (without duplication) (i) liabilities which, in accordance with GAAP, would be classified upon the unconsolidated balance sheet of that person prepared as at such time as indebtedness for borrowed money, including the Outstanding Advances, other bank indebtedness, long-term debt, capital lease obligations, indebtedness to Affiliates, Subordinated Debt (including without limitation the BMOCC Loan), interest-bearing liabilities, obligations secured by Purchase-Money Security Interests, and other financial indebtedness, (ii) the principal amount of, and any premiums and capitalized interest payable in respect of, indebtedness for the deferred purchase price of property or services, (iii) the principal amount of, and any premiums and capitalized interest payable in respect of, indebtedness payable under or in respect of any Lien upon any property acquired (whether or not assumed), (iv) the amount which is or (as the case may be) would be payable by a Company to a counterparty pursuant to any hedging or derivative entered into by such Company and in effect at that time if such hedges or derivatives have been or (as the case may be) were to be terminated at such time as the result of the default or termination event of such Company, (v) amounts payable, actual or contingent, primary, secondary or by way of guarantee, matured or unmatured, under, by reason of or otherwise in respect of, any (A) bankers' acceptance, (B) sale of promissory notes, sale of accounts, factoring, securitization or discounting arrangement to the extent recourse to such person or any Affiliate of it exists to recover such amounts payable (C) standby credit, bank guarantee or performance bond issued to secure obligations that do not constitute trade obligations incurred in the ordinary course of conducting day-to-day business, (D) any liability under any sale and leaseback transaction which does not create a liability on the consolidated balance sheet of such person prepared in accordance with GAAP, (E) any liability under any financing lease or so-called "synthetic" lease transaction, (F) any liability under any operating lease to pay any guaranteed residual value of equipment leased or (G) any obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of the Borrower and its Subsidiaries, prepared in accordance with GAAP, (vi) the redemption price of any securities issued by the Companies having attributes substantially similar to debt (such as securities which are redeemable at the option of the holder), (vii) financial assistance by means of a loan, guarantee or otherwise to any person and (viii) any amount payable under any direct or indirect guarantee of any amount of the nature described in any of Clauses (i) to (vii) above, but excluding accounts payable, future income taxes (both current and long-term) and short term non-interest bearing liabilities;

"Total Funded Debt to EBITDA Ratio" means, in respect of any Fiscal Quarter, the ratio of Total Funded Debt at the end of such Fiscal Quarter to EBITDA in the Fiscal Quarter, in each case comprised of such Fiscal Quarter and the immediately preceding three Fiscal Quarters;

"Total Funded Debt Service" means, in respect of any fiscal period, for the Borrower on a consolidated basis and without duplication: (i) the aggregate amount of cash Interest paid in respect of the Total Funded Debt in respect of such fiscal period (for greater certainty, not including any Interest which is capitalized and not paid or payable during such fiscal period); plus (ii) the aggregate amount of scheduled principal payments and scheduled capital lease

payments paid in respect of the Total Funded Debt (for greater certainty, including any principal payment paid in respect of Subordinated Debt to the extent such payment is permitted hereunder and under the terms of a subordination agreement delivered to the Bank in respect of such fiscal period except for the portion of any final payment due in respect of such Total Funded Debt which the Bank considers to be a "balloon payment" and any amount paid in connection with the exercise of an option to purchase equipment under a capital lease);

"Unfunded Capital Expenditures" means Capital Expenditures funded by the Borrower's cash flow or from the Operating Facility;

"U.S. Base Rate" means the greater of the following: (i) the floating annual rate of interest established from time to time by the Bank as the reference rate it will use to determine rates of interest on U.S. dollar loans to its customers in Canada and designated as its U.S. base rate; and (ii) the Federal Funds Rate plus one percent (1.0%) per annum;

"U.S. Base Rate Loan" means any Loan denominated in U.S. Dollars with respect to which interest is calculated under this Agreement based on the U.S. Base Rate;

"U.S. Dollar Loan" means an Advance made by the Bank to the Borrower under any Credit Facility by way of a loan in U.S. Dollars;

"U.S. Dollars" or **"U.S.\$"** means the lawful money of the United States; and

"Vendor" means collectively, Garth Wheldon, Dundee Staunton, Glynn Williams, Ken Beel, William Deluce, George Koulakian, Andrew Lee, James Morrison, Paul Dickinson, Bosko Maric, Dan Cristian, Hariton Garabetian, Paul Murphy, David Williamson and Precinda Corp.

1.02 Accounting Principles

Unless otherwise provided herein, all financial terms used in this Agreement shall be determined in accordance with GAAP in effect at the date of determination. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other computation is required to be made for the purpose of this Agreement, such determination or calculation shall be made in accordance with GAAP applied on a consistent basis, unless otherwise indicated. If any changes in accounting principles, from those used in the preparation of the financial statements of the Borrower for the Borrower's 2010 Fiscal Year based on GAAP, occur by reason of any change in the rules, regulations, pronouncements, opinions or other requirements of the Canadian Institute of Chartered Accountants (or any successor thereto or agency with similar function), or the adoption by the Borrower of the International Financial Reporting Standards ("IFRS"), and such change in accounting principles results in a change in the method or results of calculation of financial covenants or the terms related thereto contained in this Agreement, the Borrower shall, at its option, either (a) furnish to the Bank, together with each delivery of the financial statements required to be delivered hereby, a written reconciliation setting forth the differences that would have resulted if such financial statements had been prepared utilizing existing GAAP (in which case the method and calculation of financial covenants and the terms related thereto hereunder shall continue to be determined in accordance with GAAP existing prior to giving effect to such change) or (b) agree with the Bank to amend such financial covenants or terms in such manner as the Bank shall require in order to reflect fairly such changes so that the criteria for evaluating the financial condition of the Borrower shall be the same in commercial effect after, as well as before, such changes are made (in which case the

method and calculation of financial covenants and the terms related thereto hereunder shall be determined in the manner so agreed).

1.03 Currency References

All monetary amounts referred to in this Agreement are references to Canadian Dollars unless otherwise noted.

1.04 References to Statutes

Whenever in this Agreement reference is made to a statute or regulations made pursuant to a statute, such reference shall be deemed to include all amendments to such statute or regulations from time to time and all statutes or regulations which may come into effect from time to time substantially in replacement for the said statutes or regulations.

1.05 Extended Meanings

Terms defined in the singular have the same meaning when used in the plural, and vice-versa. When used in the context of a general statement followed by a reference to one or more specific items or matters, the term "including" shall mean "including, without limitation", the term "include" shall mean "include, without limitation" and the term "includes" shall mean "includes, without limitation". Any reference to the Bank's opinion, consent or discretion shall mean that the Bank's opinion, consent or discretion (including phrases such as "in the discretion of", "in the opinion of", "to the satisfaction of" and similar phrases) shall mean that such discretion is absolute and unfettered (and shall not imply any obligation to act reasonably), unless otherwise expressly stated.

1.06 Exhibits and Schedules

The following exhibits and schedules are attached to this Agreement and incorporated herein by reference:

Exhibit "A"	-	Drawdown Notice
Exhibit "B"	-	Rollover Notice
Exhibit "C"	-	Conversion Notice
Exhibit "D"	-	Repayment Notice
Exhibit "E"	-	Compliance Certificate
Exhibit "F"	-	Borrowing Base Certificate
Schedule 8.01(e)	-	Corporate Structure and Places of Business
Schedule 8.01(f)	-	Specific Permitted Liens
Schedule 8.01(g)	-	Owned Properties
Schedule 8.01(h)	-	Leased Properties
Schedule 8.01(i)	-	Material Agreements
Schedule 8.01(j)	-	Intellectual Property
Schedule 8.01(n)	-	Hazardous Materials
Schedule 8.01(p)	-	No Undisclosed Liabilities
Schedule 8.01(r)	-	Guarantees
Schedule 9.02(o)	-	Locations

ARTICLE II - OPERATING FACILITY

2.01 Establishment of Operating Facility

Subject to the terms and conditions in this Agreement, the Bank hereby establishes a revolving credit facility for the Borrower (the "**Operating Facility**") under which the aggregate amount of the Outstanding Advances shall not exceed the Operating Facility Available Amount. In addition, up to \$1,000,000 of the Operating Facility will be available to the Borrower on the date of the first advance hereunder, provided that, immediately prior to such advance, there is minimum surplus margin availability under the Operating Facility of \$2,500,000.

2.02 Purpose of Operating Facility

The Operating Facility may be used by the Borrower for day to day operating purposes (including working capital and general corporate requirements), subject to the terms and conditions of this Agreement.

2.03 Repayment/Extension

The Obligations of the Borrower under the Operating Facility are repayable on the earlier to occur of: (i) the Acceleration Date and (ii) the Operating Facility Maturity Date.

2.04 Revolving Nature

The Operating Facility shall be a revolving facility. Subject to the terms and conditions of this Agreement, the Borrower shall be entitled to repay all or any portion of its Outstanding Advances under the Operating Facility from time to time (subject to Section 7.08, without payment of any prepayment charge or fee) and obtain further Advances under the Operating Facility from time to time.

2.05 Availability

The Borrower may receive Advances under the Operating Facility by way of the following Availment Options (or any combination thereof):

- (a) Prime Rate Loans in any amount;
- (b) U.S. Base Rate Loans in any amount;
- (c) Bankers' Acceptances with terms between 28 and 182 days in minimum amounts of \$500,000 and multiples of \$100,000;
- (d) LIBOR Loans with a LIBOR Period of 1, 2 or 3 months, subject to availability, in minimum amounts of U.S.\$500,000 and multiples of U.S.\$100,000; or
- (e) Letters of Credit for purposes other than guaranteeing obligations of third parties, provided that each Letter of Credit shall mature within 364 days from the date of issuance and the maximum principal amount of all Letters of Credit outstanding at any time may not exceed \$500,000 or the Equivalent Amount thereof in U.S. Dollars in the aggregate.

Outstanding Advances under the Operating Facility in the form of any of the above Availment Options (other than Letters of Credit) may be converted into another said form of Availment Option (other than Letters of Credit) subject to and in accordance with the terms and conditions of this Agreement (but for greater certainty, Bankers' Acceptances and LIBOR Loans may not be converted into another Availment Option prior to the maturity thereof).

2.06 Remuneration for Operating Facility

The Borrower shall pay to the Bank:

- (a) interest on Prime Rate Loans at the Prime Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month;
- (b) in respect of each Bankers' Acceptance, a stamping fee equal to the Applicable Margin of the face amount of the Bankers' Acceptance, multiplied by the number of days to maturity of the Bankers' Acceptance and divided by 365, payable at the time of acceptance by the Bank;
- (c) interest on U.S. Base Rate Loans at the U.S. Base Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month;
- (d) interest on LIBOR Loans at the LIBO Rate plus the Applicable Margin, calculated on the basis of a year of 360 days and payable in the manner herein set out;
- (e) in respect of each Letter of Credit, (i) in respect of the period from the date of issuance of such Letter of Credit to the last day of the then current Fiscal Quarter (both inclusive), an issuance fee equal to the Applicable Margin in effect at the time of issuance of such Letter of Credit multiplied by the face amount of such Letter of Credit and further multiplied by the number of days in such period and divided by three hundred and sixty-five (365), payable at the time of issuance of such Letter of Credit, (ii) in respect of each subsequent Fiscal Quarter (other than the Fiscal Quarter in which the Letter of Credit shall expire), a fee equal to the Applicable Margin in effect on the first day of such Fiscal Quarter multiplied by the face amount of the Letter of Credit and further multiplied by the number of days in such Fiscal Quarter and divided by three hundred and sixty-five (365), payable on the first day of such Fiscal Quarter; and (iii) in respect of the Fiscal Quarter in which the Letter of Credit shall expire, a fee equal to the Applicable Margin in effect on the first day of such Fiscal Quarter multiplied by the face amount of such Letter of Credit and further multiplied by the number of days from the first day of such Fiscal Quarter to the date of expiry of such Letter of Credit (both inclusive) and divided by three hundred and sixty-five (365), payable on the first day of such Fiscal Quarter, plus such administrative fees as may be charged by the Bank from time to time, renewal fees and other incidental fees generally applicable to Letters of Credit from time to time at the Bank's usual rates then in effect; and
- (f) a standby fee payable by the Borrower equal to the Applicable Margin for standby fees multiplied by the difference between the Operating Facility Limit and the Outstanding Advances under the Operating Facility, calculated daily and payable quarterly in arrears on the last day of each Fiscal Quarter (commencing with the last day of the Fiscal

Quarter which occurs immediately after the date of the first Advance hereunder) in respect of fees accrued from the first day of such Fiscal Quarter to and including the last day of such Fiscal Quarter, based on the actual number of days elapsed and a year of 365 or 366 days, as the case may be.

2.07 Outstanding Advances Not to Exceed Operating Facility Available Amount

The Bank shall have no obligation to make an Advance (or any portion thereof) under the Operating Facility to the extent that after making such Advance (or portion thereof), the Outstanding Advances under the Operating Facility would exceed the Operating Facility Available Amount. If at any time the Outstanding Advances under the Operating Facility exceed the Operating Facility Available Amount, the Borrower agrees to immediately pay to the Bank the amount required to reduce the Outstanding Advances under the Operating Facility to an amount not greater than the Operating Facility Available Amount.

2.08 Voluntary Cancellation

The Borrower may from time to time, upon five (5) Business Days' prior written notice to the Bank, cancel any unused portion of the Operating Facility in a minimum amount and in integral multiples of One Million Dollars (\$1,000,000), in which event the Operating Facility Limit shall be automatically and permanently reduced by such amount.

ARTICLE III- TERM FACILITY

3.01 Establishment of Term Facility

Subject to the terms and conditions in this Agreement, the Bank hereby establishes a non-revolving, reducing credit facility (the "Term Facility") for the Borrower in the maximum principal amount of the Term Facility Limit.

3.02 Purpose of Term Facility

Subject to the terms and conditions of this Agreement, the Term Facility may be used by the Borrower to assist the Borrower in paying amounts required to be paid by the Borrower to complete the Target Acquisition.

3.03 Maturity/Repayment

- (a) The Obligations under the Term Facility shall become due and payable on the earliest of:
 - (i) the Acceleration Date; and (ii) the Term Facility Maturity Date.
- (b) Subject to Section 3.03(a), the Borrower agrees to make Repayments to the Bank on account of Obligations owing under the Term Facility in an amount per Fiscal Quarter equal to the amounts set out in the table below, such payments to be made on the last day of each and every Fiscal Quarter, the first such quarterly Repayment to be made on December 31, 2011, and the remaining balance of such Obligations shall be repaid in full on the Term Facility Maturity Date:

Date	Amount
December 31, 2011	\$175,000
March 31, 2012	\$175,000
June 30, 2012	\$175,000
September 30, 2012	\$175,000
December 31, 2012	\$210,000
March 31, 2013	\$210,000
June 30, 2013	\$210,000
September 30, 2013	\$210,000
December 31, 2013	\$245,000
March 31, 2014	\$245,000
June 30, 2014	\$245,000
September 30, 2014	\$245,000
December 31, 2014	\$245,000
March 31, 2015	\$245,000
June 30, 2015	\$245,000
September 30, 2015	\$245,000
December 31, 2015	\$262,500
March 31, 2016	\$262,500
June 30, 2016	\$262,500

3.04 Non-Revolver Nature

The Term Facility shall be a non-revolving facility. For greater certainty, any Repayment made on account of the Outstanding Advances under the Term Facility may not be reborrowed.

3.05 Availability

The Borrower may receive a single Advance under the Term Facility (subject to the restrictions and limitations contained in this Agreement) by way of the following Availment Options (or any combination thereof):

- (a) Prime Rate Loans in any amount;
- (b) U.S. Base Rate Loans in any amount;
- (c) Bankers' Acceptances with terms between 28 and 182 days in minimum amounts of \$1,000,000 and multiples of \$100,000; or
- (d) LIBOR Loans with a LIBOR Period of 1, 2 or 3 months, subject to availability, in minimum amounts of U.S.\$1,000,000 and multiples of U.S.\$100,000;

provided however that no Bankers' Acceptance or LIBOR Loan will be issued with a maturity date later than the Term Facility Maturity Date and no Advance will be made by the Bank which would result in the Term Facility Limit being exceeded at any time. Outstanding Advances under the Term Facility in the form of any of the above Availment Options may be converted into another said form of Availment Option subject to and in accordance with the terms and conditions of this Agreement (but for greater

certainty, Bankers' Acceptances and LIBOR Loans may not be converted into another Availment Option prior to the maturity thereof).

The Borrower may request one single Advance under the Term Facility. Any portion of the Term Facility which is not drawn by the Borrower on the date of the initial Advance under the Term Facility shall be automatically cancelled.

3.06 Remuneration for Term Facility

The Borrower shall pay to the Bank:

- (a) interest on Prime Rate Loans at the Prime Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month;
- (b) in respect of each Bankers' Acceptance, a stamping fee equal to the Applicable Margin of the face amount of the Bankers' Acceptance, multiplied by the number of days to maturity of the Bankers' Acceptance and divided by 365, payable at the time of acceptance by the Bank;
- (c) interest on U.S. Base Rate Loans at the U.S. Base Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month; and
- (d) interest on LIBOR Loans at the LIBO Rate plus the Applicable Margin, calculated on the basis of a year of 360 days and payable in the manner herein set out.

3.07 Borrowing Limits

The aggregate amount of the Outstanding Advances to the Borrower under the Term Facility may not exceed the Term Facility Limit at any time.

3.08 Prepayment and Voluntary Cancellation

The Borrower may from time to time, upon five (5) Business Days' prior written notice to the Bank, make a Prepayment in respect of all or any portion of its Outstanding Advances under the Term Facility in a minimum amount and in multiples of \$500,000 (subject to Section 7.08, without payment of any prepayment charge or fee), provided that such Prepayment is not made, directly or indirectly, from the proceeds of Total Funded Debt; and provided further that Prepayments shall not be permitted in respect of Bankers' Acceptances or LIBOR Loans. Any such Prepayment shall be applied against the Borrower's obligations to make Repayments in reverse chronological order. The Term Facility Limit shall be automatically and permanently reduced by the amount of any such Prepayment.

3.09 Fixed Rate Option

The Borrower may elect from time to time to enter into an Interest Rate Management Product with the Bank which has the effect of converting the interest rate on the Outstanding Advances under the Term Facility (calculated on the date in which the Interest Rate Management Product is entered into) to a fixed rate of interest. The provisions of Article V would apply to any such Interest Rate Management Product. In the event that such an Interest Rate Management Product is entered into between the

Borrower and the Bank or any of the Bank's Affiliates in respect of some or all Outstanding Advances under the Term Facility, (a) the Borrower shall pay to the Bank interest on such Outstanding Advances at the interest rate set out in such Interest Rate Management Product, calculated daily and payable monthly in arrears on the last day of each and every month and (b) the Borrower may only make a Prepayment in respect of such Outstanding Advance upon payment of a prepayment penalty to be determined by the Bank or any of the Bank's Affiliates at such time.

ARTICLE IV – CAPEX FACILITY

4.01 Establishment of Capex Facility

Subject to the terms and conditions in this Agreement, the Bank hereby establishes a revolving, reducing credit facility (the "**Capex Facility**") for the Borrower in the maximum principal amount of the Capex Facility Available Amount.

4.02 Purpose of Capex Facility

Subject to the terms and conditions of this Agreement, the Capex Facility may be used by the Borrower to finance Eligible Capital Equipment in the normal course of business.

4.03 Maturity/Repayment

- (a) The Obligations under the Capex Facility shall become due and payable on the earliest of: (i) the Acceleration Date; and (ii) the Capex Facility Maturity Date.
- (b) Subject to Section 4.03(a), the Borrower agrees to make Repayments to the Bank on account of each Advance under the Capex Facility in equal quarterly payments of principal, with each such payment being in an amount equal to the amount of such Advance divided by sixty (60), plus accrued interest, beginning on the last Business Day of the Fiscal Quarter following the Fiscal Quarter in which such Advance was made and continuing on the last Business Day of each Fiscal Quarter thereafter through the Capex Facility Maturity Date at which time the remaining balance of the Obligations outstanding under the Capex Facility shall be repaid in full.

4.04 Revolving Nature

The Capex Facility shall be a revolving facility. Subject to the terms and conditions of this Agreement, the Borrower shall be entitled to repay all or any portion of its Outstanding Advances under the Capex Facility from time to time (subject to Section 7.08, without payment of any prepayment charge or fee) and obtain further Advances under the Capex Facility from time to time.

4.05 Availability

The Borrower may receive Advances under the Capex Facility by way of the following Availment Options (or any combination thereof), in each case in a minimum amount of \$50,000 and multiples of \$25,000:

- (a) Prime Rate Loans;

- (b) U.S. Base Rate Loans;
- (c) Bankers' Acceptances with terms between 28 and 182 days in minimum amounts of \$500,000 and multiples of \$100,000; or
- (d) LIBOR Loans with a LIBOR Period of 1, 2 or 3 months, subject to availability, in minimum amounts of U.S.\$500,000 and multiples of U.S.\$100,000;

provided however that no Bankers' Acceptance or LIBOR Loan will be issued with a maturity date later than the Capex Maturity Date and no Advance will be made by the Bank which would result in the Capex Facility Available Amount being exceeded at any time. Outstanding Advances under the Capex Facility in the form of any of the above Availment Options may be converted into another said form of Availment Option subject to and in accordance with the terms and conditions of this Agreement (but for greater certainty, Bankers' Acceptances and LIBOR Loans may not be converted into another Availment Option prior to the maturity thereof).

4.06 Remuneration for Capex Facility

The Borrower shall pay to the Bank:

- (a) interest on Prime Rate Loans at the Prime Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month;
- (b) in respect of each Bankers' Acceptance, a stamping fee equal to the Applicable Margin of the face amount of the Bankers' Acceptance, multiplied by the number of days to maturity of the Bankers' Acceptance and divided by 365, payable at the time of acceptance by the Bank;
- (c) interest on U.S. Base Rate Loans at the U.S. Base Rate plus the Applicable Margin, calculated daily and payable monthly in arrears on the last day of each and every month;
- (d) interest on LIBOR Loans at the LIBO Rate plus the Applicable Margin, calculated on the basis of a year of 360 days and payable in the manner herein set out; and
- (e) a standby fee payable by the Borrower equal to the Applicable Margin for standby fees multiplied by the difference between the Capex Facility Limit and the Outstanding Advances under the Capex Facility, calculated daily and payable quarterly in arrears on the last day of each Fiscal Quarter (commencing with the last day of the Fiscal Quarter which occurs immediately after the date of the first Advance hereunder) in respect of fees accrued from the first day of such Fiscal Quarter to and including the last day of such Fiscal Quarter, based on the actual number of days elapsed and a year of 365 or 366 days, as the case may be.

4.07 Borrowing Limits

The aggregate amount of the Outstanding Advances to the Borrower under the Capex Facility may not exceed the Capex Facility Available Amount at any time.

4.08 Prepayment and Voluntary Cancellation

The Borrower may from time to time, upon five (5) Business Days' prior written notice to the Bank, (a) permanently reduce any unused portion of the Capex Facility in a minimum amount and in multiples of \$500,000, in which event the Capex Facility Limit shall be automatically and permanently reduced by such amount and (b) make a Prepayment in respect of all or any portion of its Outstanding Advances under the Capex Facility in a minimum amount and in multiples of \$500,000 (subject to Section 7.08, without payment of any prepayment charge or fee), provided that such Prepayment is not made, directly or indirectly, from the proceeds of Total Funded Debt; and provided further that Prepayments shall not be permitted in respect of Bankers' Acceptances. Any such Prepayment shall be applied against the Borrower's obligations to make Repayments in reverse chronological order.

ARTICLE V - RISK MANAGEMENT FACILITY

5.01 Establishment of Facility

Subject to the terms and conditions in this Agreement, the Bank hereby establishes a credit facility for the Borrower in respect of which the Deemed Risk in the aggregate shall not exceed One Million Five Hundred Thousand Dollars (\$1,500,000) or the U.S. Dollar Equivalent Amount thereof (the "Risk Management Facility").

5.02 Purpose of Risk Management Facility

The Risk Management Facility may be used by the Borrower for hedging foreign exchange risk or interest rate risk incurred in the ordinary course of business (specifically excluding any speculative transactions), subject to the terms and conditions of this Agreement.

5.03 Repayment

The obligations under any FEFC or Interest Rate Management Product issued under the Risk Management Facility shall be due and payable upon the earliest of: (i) the maturity date of such FEFC or Interest Rate Management Product; (ii) the Acceleration Date; and (iii) the Term Facility Maturity Date.

5.04 Revolving Nature

The Borrower may from time to time satisfy all or any portion of its obligations under FEFCs or Interest Rate Management Products issued under the Risk Management Facility and enter into new FEFCs or Interest Rate Management Products under the Risk Management Facility; provided that the Deemed Risk at any time under the Risk Management Facility shall not exceed the maximum amount of Deemed Risk referenced in Section 5.01.

5.05 Availability

The Borrower may utilize the Risk Management Facility by purchasing FEFCs or Interest Rate Management Products from the Bank or any of the Bank's Affiliates from time to time upon such terms and conditions as may be offered by the Bank from time to time, provided that:

- (a) the maturity date of any FEFC shall not be later than the date which is one (1) year after the date of issuance;
- (b) the maturity date of any Interest Rate Management Product shall not be later than the date which is five (5) years after the date of the Advance which is the subject of such Interest Rate Management Product;
- (c) the maturity date of any FEFC or Interest Rate Management Product shall not be later than the Term Facility Maturity Date; and
- (d) the issuance of all FEFCs and Interest Rate Management Products shall be subject to availability in accordance with the Bank's internal policies and market availability, and subject to payment by the Borrower to the Bank or any of the Bank's Affiliates of their respective usual fees for such a transaction concurrently with the entering into of such transaction.

5.06 General Matters

The Bank shall not be obliged to enter into any FEFC or Interest Rate Management Product hereunder unless the Borrower enters into and delivers to the Bank or any of the Bank's Affiliates, as applicable, the required form of documentation in connection therewith including without limitation any indemnities which may be required by the Bank or any of the Bank's Affiliates (and further provided that the Bank shall have no obligation to enter into any FEFC or Interest Rate Management Product so long as a Default or Event of Default has occurred and is continuing). The Bank shall have the right to approve the portfolio of FEFCs and Interest Rate Management Products to be made available by the Bank or any of the Bank's Affiliates to the Borrower under the Risk Management Facility from time to time. The amount of Deemed Risk with respect to such FEFCs and Interest Rate Management Products will be determined by the Bank in accordance with its standard policies and the Deemed Risk in respect of same will reduce the Deemed Risk permitted to be utilized by the Borrower under the Risk Management Facility. The Bank's policies in connection with Deemed Risk are subject to change without notice in accordance with the Bank's internal policies. Any amount in respect of which the Borrower is obligated to indemnify or reimburse the Bank or any of the Bank's Affiliates under the terms of any contract entered into by the Borrower with the Bank or any of the Bank's Affiliates in respect of any FEFCs or Interest Rate Management Products shall constitute a Prime Rate Loan or a U.S. Base Rate Loan and shall bear interest in accordance with the provisions of this Agreement as if such amount was a Prime Rate Loan or a U.S. Base Rate Loan under the Term Facility, both before and after the date on which payment, cost or expense, in respect of which such indemnity or reimbursement obligation arises, is made or incurred by the Bank or any of the Bank's Affiliates. For greater certainty, the Security shall secure payment and performance of all Obligations, including without limitation the Risk Management Obligations. In the event that the Borrower repays the Obligations owing to the Bank or any of the Bank's Affiliates in respect of the Operating Facility, the Term Facility, the Capex Facility and the MasterCard Facility and any one or more FEFCs or Interest Rate Management Products are still outstanding at such time, then in such case, the Security shall continue in full force and effect to secure such Risk Management Obligations.

5.07 Fees

The Borrower shall pay to the Bank or any of the Bank's Affiliates in respect of each FEFC and Interest Rate Management Product the fees determined by the Bank's treasury department or SWAP desk, as applicable.

ARTICLE VI - MASTERCARD FACILITY

6.01 Establishment of Facility

Subject to the terms and conditions in this Agreement, the Bank hereby establishes a credit facility for the Borrower in the maximum principal amount of the MasterCard Facility Limit (the "MasterCard Facility").

6.02 Purpose of Facility

Advances under the MasterCard Facility shall be used by Borrower to facilitate the payment of business expenses incurred by the Borrower.

6.03 MasterCard Facility Limit

The Outstanding Advances at any time under the MasterCard Facility shall not exceed the MasterCard Facility Limit. The Bank shall have no obligation to make an Advance under the MasterCard Facility if after making such Advance the Obligations under the MasterCard Facility would exceed the MasterCard Facility Limit. If at any time the Obligations under the MasterCard Facility exceed the MasterCard Facility Limit, the Borrower shall pay to the Bank the principal amount required to reduce the Obligations under the MasterCard Facility to an amount not greater than the MasterCard Facility Limit.

6.04 Terms and Conditions

The Borrower may receive Advances under the MasterCard Facility by way of debits through the use of corporate cards issued by the Bank to officers and employees of the Borrower upon the completion of a MasterCard agreement and all other necessary documentation reasonably required by the Bank.

6.05 Repayment

The Obligations under the MasterCard Facility shall become due and payable upon the earliest to occur of (i) the issuance by the Bank of a demand for payment of all Obligations of the Borrower under the MasterCard Facility; (ii) the Acceleration Date; and (iii) the Term Facility Maturity Date. Until such time, the Obligations under the MasterCard Facility shall be payable monthly in accordance with the terms of the MasterCard agreement made between the Borrower and the Bank (the "MasterCard Agreement").

6.06 Fees

The Borrower shall pay to the Bank in respect of the MasterCard Facility the fees set out in the MasterCard Agreement.

ARTICLE VII - GENERAL CONDITIONS

7.01 Matters Relating to Interest

- (a) Unless otherwise indicated, interest on any outstanding principal amount shall be calculated daily and shall be payable monthly in arrears on the last day of each and every month. If the last day of a month is not a Business Day, the interest payment due on such day shall be made on the next Business Day, and interest shall continue to accrue on the said principal amount during such stub period and shall also be paid on such next Business Day. Interest shall accrue from and including the day upon which an Advance is made or is deemed to have been made, and ending on but excluding the day on which such Advance is repaid or satisfied, both before and after maturity, default and judgment. Any changes in the Prime Rate or U.S. Base Rate shall cause an immediate adjustment of the interest rate applicable to Prime Rate Loans or U.S. Base Rate Loans as the case may be, from and after such change, without the necessity of any notice to the Borrower.
- (b) Effective upon the occurrence of any Event of Default and for so long as any Event of Default shall be continuing, the interest rates, stamping fees, issuance fees and standby fees otherwise payable hereunder shall automatically, immediately and without notice by the Bank to the Borrower be increased by two percent (2%) per annum (such increased rate, the "Default Rate") to compensate the Bank for the additional risk, and all outstanding Obligations, including unpaid interest, stamping fees, issuance fees and standby fees, shall continue to accrue interest from the date of such Event of Default at the Default Rate applicable to such Obligations. For greater certainty, the Default Rate shall apply whether or not the Bank declares all Obligations of the Borrower to be immediately due and payable and whether or not the Bank takes any enforcement action or seeks to avail itself of any remedies hereunder.
- (c) Unless otherwise stated, in this Agreement if reference is made to a rate of interest, fee or other amount "per annum" or a similar expression is used, such interest, fee or other amount shall be calculated on the basis of a year of 365 or 366 days, as the case may be. If the amount of any interest, fee or other amount is determined or expressed on the basis of a period of less than one year of 365 or 366 days, as the case may be, the equivalent yearly rate is equal to the rate so determined or expressed, divided by the number of days in the said period, and multiplied by the actual number of days in that calendar year.
- (d) Notwithstanding any other provisions of this Agreement, if the amount of any interest, premium, fees or other monies or any rate of interest stipulated for, taken, reserved or extracted under this Agreement or the Security would otherwise contravene the provisions of section 347 of the *Criminal Code* (Canada), section 8 of the *Interest Act* (Canada) or any successor or similar legislation, or would exceed the amounts which the

Bank is legally entitled to charge and receive under any law to which such compensation is subject, then such amount or rate of interest shall be reduced to such maximum amount as would not contravene such provision; and to the extent that any excess has been charged or received the Bank shall apply such excess against the Outstanding Advances and refund any further excess amount.

- (e) The parties hereto acknowledge that there is a material distinction between the nominal and effective rates of interest and that they are capable of making the calculations necessary to compare such rates and that the calculations herein are to be made using the nominal rate method and not on any basis that gives effect to the principle of deemed reinvestment of interest.

7.02 Notice Periods

- (a) Written notice in respect of Advances, Rollovers, Conversions and Repayments in respect of the Borrower shall be provided to the Bank by the Borrower as set out below:
 - (i) no notice is required for Advances and Repayments under the MasterCard Facility;
 - (ii) no notice is required for any Repayment of any Advance under the Operating Facility;
 - (iii) notice is required for each Prepayment under the Term Facility and the Capex Facility in accordance with Section 3.08 and Section 4.08, respectively;
 - (iv) two (2) Business Days' notice is required before 12:00 noon Toronto time in respect of any Advance, Rollover, Conversion or Prepayment by the Borrower in an amount equal to or greater than Ten Million Dollars (\$10,000,000) under the Operating Facility, the Term Facility or the Capex Facility;
 - (v) one (1) Business Day's notice is required before 12:00 noon Toronto time in respect of any Advance, Rollover or Conversion by the Borrower in an amount less than Ten Million Dollars (\$10,000,000) relating to a Bankers' Acceptance under the Operating Facility, the Term Facility or the Capex Facility;
 - (vi) in respect of any Advance, Rollover or Conversion by the Borrower in an amount less than Ten Million Dollars (\$10,000,000) relating to a Prime Rate Loan or a U.S. Base Rate Loan under the Operating Facility, the Term Facility or the Capex Facility, notice is required before 12:00 noon Toronto time on the date of such Advance, Rollover or Conversion;
 - (vii) notwithstanding the foregoing, if an Advance, Rollover, Conversion or Prepayment relates to a LIBOR Loan, two (2) Business Days' notice is required before 10:00 a.m. Toronto time; and
 - (viii) notwithstanding the foregoing, if the Advance relates to the issuance of a Letter of Credit, three (3) Business Days' notice is required before 10:00 a.m. Toronto time.
- (b) Notice of any Advance, Rollover, Conversion or Prepayment referred to in paragraph (a) above shall be given in the form of a Drawdown Notice, Rollover Notice, Conversion

Notice or Repayment Notice, as the case may be, attached hereto as Exhibits and delivered to the Bank in the manner set out in Section 13.07.

- (c) If notice is not provided as contemplated herein with respect to the maturity of any Bankers' Acceptance or LIBOR Loan, the Bank may in its discretion convert such Bankers' Acceptance or LIBOR Loan upon its maturity into a Prime Rate Loan or a U.S. Base Rate Loan, respectively.
- (d) Any conversion from one form of Availment Option to another shall be subject to satisfaction of all of the terms and conditions applicable to the form of the new Availment Option as herein provided.

7.03 Place of Advances; Place and Time of Payments

- (a) Advances to the Borrower shall be made by the Bank through its branch at First Canadian Place, Toronto, Ontario; and all payments of principal, interest and other amounts to be made by the Borrower pursuant to this Agreement shall be made at such branch.
- (b) All payments received by the Bank on a Business Day before 3:00 p.m. Toronto time shall be treated as having been received by the Bank on that day; payments made after such time on a Business Day shall be treated as having been received by the Bank on the next Business Day.

7.04 Evidence of Obligations (Noteless Advances)

The Bank shall open and maintain, in accordance with its usual practice, accounts evidencing the Borrower's obligations to the Bank hereunder (i.e. the Obligations) and the information entered in such accounts shall constitute conclusive evidence of the said obligations absent manifest error. The Bank may, but shall not be obliged to, request the Borrower to execute and deliver from time to time such promissory notes as may be required in order to evidence the Borrower's obligations to the Bank under this Agreement. To facilitate the forgoing, the Borrower shall, from time to time at the request of the Bank, deliver executed promissory notes to the Bank to be held for the purpose of completion in connection with any Advance (other than an Advance in the form of a Bankers' Acceptance or Letter of Credit), and the Borrower irrevocably authorizes the Bank to record on each promissory note the amount of the applicable Advance and the applicable interest rate and to record on the reverse side thereof any payments made on account of such Advance evidenced by such promissory note.

7.05 Special Provisions Regarding U.S. Dollar Loans

The Borrower acknowledges that the ability of the Bank to provide loans in U.S. Dollars is subject to any statute, law, regulation, rule or direction by any Governmental Authority having jurisdiction to prohibit or restrict the supply of U.S. Dollars to or by the Bank, and the Borrower agrees that the Bank shall incur no liability hereunder if it does not provide Advances in U.S. Dollars as a result of any such prohibition or restriction.

7.06 Special Provisions Regarding Bankers' Acceptances

The following provisions are applicable to Bankers' Acceptances issued by the Borrower and accepted by the Bank:

- (a) Discounted Proceeds - Upon presentation of a draft to create a Bankers' Acceptance for acceptance, the Borrower shall pay to the Bank the stamping fees applicable to such Bankers' Acceptance calculated in accordance with the provisions of this Agreement and, upon receipt of such stamping fees, the Bank shall advance to or to the order of the Borrower in respect thereof by way of an Advance in the form of a Bankers' Acceptance an amount equal to the face amount of such draft discounted at the applicable CDOR Rate.
- (b) Payment of Bankers' Acceptances - The Borrower agrees to provide for each Bankers' Acceptance by payment of the full principal amount thereof to the Bank on the maturity of such Bankers' Acceptance or, prior to the maturity of such Bankers' Acceptance, upon the Acceleration Date. If the Borrower fails to provide for the payment of a Bankers' Acceptance accordingly, the Bank is authorized to debit the account of the Borrower in an amount required to pay the Bankers' Acceptance, notwithstanding that the Bankers' Acceptance may have been purchased by the Bank for its own account. Any amount so debited by the Bank and not recovered from the Borrower before 12:00 noon Toronto time on the same Business Day shall constitute a Prime Rate Loan payable by the Borrower to the Bank on demand together with interest on such amount calculated daily and payable monthly at the rate applicable to Prime Rate Loans under the Credit Facility under which the Bankers' Acceptance was issued, from the date the Bank debits the said amount until the Bank receives payment in full. The Borrower agrees not to claim any days of grace for the payment at maturity of Bankers' Acceptances and agrees to indemnify and save harmless the Bank in connection with all payments made by the Bank pursuant to Bankers' Acceptances accepted by the Bank, together with all reasonable costs and expenses incurred by the Bank in respect thereof. The Borrower hereby waives any defences to payment which might otherwise exist if for any reason a Bankers' Acceptance is held by the Bank for its own account at maturity. The Borrower agrees to sell all Bankers' Acceptances through the facilities of the Bank, and shall permit the Bank the first opportunity to purchase Bankers' Acceptances.
- (c) Availability of Bankers' Acceptances - If at any time and from time to time the Bank determines, acting reasonably, that there no longer exists a market for Bankers' Acceptances for the term requested by the Borrower, or at all, the Bank shall so advise the Borrower, and in such event the Bank shall not be obliged to accept and the Borrower shall not be entitled to issue new Bankers' Acceptances. The Bank agrees to notify the Borrower within a reasonable time when a market again exists for Bankers' Acceptances.
- (d) Power of Attorney - The Borrower hereby appoints the Bank as its true and lawful attorney to complete, sign and issue the drafts to create Bankers' Acceptances (either manually, or by facsimile or mechanical signature) on behalf of the Borrower in accordance with written, verbal or facsimile transmitted instructions provided by the Borrower's authorized signing officers to the Bank, and the Borrower hereby ratifies all

that its said attorney may do by virtue hereof. The Borrower acknowledges that such instructions acted upon by the Bank will, in the absence of negligence or wilful misconduct, be conclusively deemed to be valid instructions. The Borrower agrees to indemnify and hold harmless the Bank and its directors, officers and employees from and against any charges, complaints, costs, damages, expenses, losses or liabilities of any kind or nature which they may incur, sustain or suffer, arising from or by reason of acting, or failing to act, as the case may be, on any such verbal or facsimile transmitted instructions or on this power of attorney, except to the extent caused by the negligence or wilful misconduct of the Bank. The Borrower hereby agrees that each Bankers' Acceptance completed and issued and accepted in accordance with this section by any Vice-President or Senior Manager of the Bank (or any other employee of the Bank designated by any such officer as his or her substitute) on behalf of the Borrower is a valid, binding and negotiable instrument of the Borrower as drawer and endorser. The Borrower agrees that the Bank's accounts and records will constitute *prima facie* evidence of the execution and delivery by the Borrower of Bankers' Acceptances. This power of attorney shall continue in force until written notice of revocation has been served upon the Bank by the Borrower at the Bank's address set out in Section 13.07.

- (e) Each Bankers' Acceptance tendered by the Borrower for acceptance by the Bank under the Credit Facilities shall be denominated in Canadian Dollars and be payable in Canada. The Borrower acknowledges that the Bank may require the delivery of drafts which are in conformity with the rules and procedures of a clearing house (as that term is defined in the *Depository Bills and Notes Act* (Canada)) used by the Bank for the delivery, transfer and collection of bankers' acceptances and depository bills.
- (f) If an Event of Default shall have occurred and shall then be continuing unremedied and not waived by the Bank (whether or not acceleration has occurred), the Borrower shall forthwith pay to the Bank an amount equal to the Bank's maximum potential liability under all outstanding Bankers' Acceptances. Such amount shall be held by the Bank as general and continuing cash collateral for payment of the Obligations of the Borrower to the Bank in respect of such Bankers' Acceptances and any other obligations of the Borrower to the Bank under any Loan Documents.
- (g) In addition to the power of attorney granted in Section 7.06(d) above and to facilitate the acceptance of Bankers' Acceptances hereunder, the Borrower hereby authorizes the Bank and irrevocably appoints the Bank as its attorney:
 - (i) after the acceptance thereof by the Bank, to endorse on the Borrower's behalf, either manually or by facsimile or mechanical signature, such Bankers' Acceptances in favour of the applicable purchaser or endorsee thereof including, in the Bank's discretion, the Bank or a clearing house (as defined by the *Depository Bills and Notes Act* (Canada));
 - (ii) to deliver such Bankers' Acceptances to such purchaser or to deposit such Bankers' Acceptances with such clearing house; and

- (iii) to comply with the procedures and requirements established from time to time by the Bank or such clearing house in respect of the delivery, transfer and collection of bankers' acceptances and depository bills.

All Bankers' Acceptances so completed, signed, endorsed, delivered or deposited by the Bank on behalf of the Borrower shall be binding upon the Borrower as if completed, signed, endorsed, delivered or deposited by it. The Bank shall not be liable for any claim arising by reason of any loss or improper use of such drafts or Bankers' Acceptances except for damages suffered by the Borrower caused by the wilful misconduct or gross negligence of the Bank.

7.07 Special Provisions Regarding LIBOR Loans

The following provisions are applicable to LIBOR Loans made by the Bank to the Borrower:

- (a) Drawdown Procedures - Upon receipt by the Bank from the Borrower of a Drawdown Notice, Conversion Notice or Rollover Notice in respect of a LIBOR Loan, the Bank will forthwith advise the Borrower of the LIBO Rate, such rate to be determined as at approximately 11:00 a.m. London, England time, two (2) Business Days before the commencement of the LIBOR Period for such LIBOR Loan. If the Bank determines that Eurodollar deposits for the relevant amount and LIBOR Period requested by the Borrower are not being or will not be offered to the Bank in the LIBOR Market or if for any other reason the Bank is unable to determine the applicable LIBO Rate or if for any reason the LIBOR Period requested by the Borrower is not reasonably available to the Bank, then the Bank shall notify the Borrower of the foregoing and the Bank shall not be obliged to make the requested LIBOR Loan; and if such determination takes place after the Bank has already made an Advance in the expectation that such Advance will constitute a LIBOR Loan for the LIBOR Period requested, the Bank may by written notice to the Borrower require the Borrower to select another LIBOR Period or convert the said LIBOR Loan into a U.S. Base Rate Loan. The Bank's obligation to make a LIBOR Loan is subject to general market availability.
- (b) Interest Payment Dates - Interest in respect of any LIBOR Loan shall be calculated on the basis of a year of 360 days. Interest in respect of any LIBOR Loan with a LIBOR Period of between 1 and 3 months (inclusive) shall be payable at the time the principal amount of such LIBOR Loan is payable. Interest in respect of any LIBOR Loan with a LIBOR Period longer than 3 months (if permitted by the Bank in its discretion) shall be payable in arrears every 90 days commencing on the 90th day following the commencement of such LIBOR Period, and also at the time the principal amount of such LIBOR Loan is payable.
- (c) Laws Applicable to LIBOR Loans - The Borrower acknowledges that the ability of the Bank to maintain or provide any LIBOR Loan and/or to charge interest on any LIBOR Loan at a LIBO Rate is and will be subject to any Applicable Law including direction by any Governmental Authority having jurisdiction which may prohibit or restrict or limit such loans and/or such interest. The Borrower agrees that the Bank shall have the right to comply with any such requirement and, if the Bank acting reasonably determines it to be necessary, convert any LIBOR Loan to a U.S. Base Rate Loan or require immediate

repayment of all LIBOR Loans and accrued interest thereon. The Bank agrees to use reasonable efforts to notify the Borrower before taking any such action, but shall not incur any liability if it does not do so.

- (d) If on any date the Bank determines in good faith (which determination will be conclusive) that its ability to make a requested LIBOR Loan has become impracticable or unlawful, or has been materially adversely affected or does not adequately reflect the Bank's cost of funding such LIBOR Loan because: (a) of any change in Applicable Law (whether or not having the force of law but of a kind which is intended to be generally complied with by banks) in the interpretation or administration thereof by competent authorities, or (b) of any material adverse change in or the termination of the LIBOR Market, then in any such case, the Bank will promptly give notice thereof to the Borrower and thereafter the Bank will have no further obligation with respect to such requested LIBOR Loan.
- (e) If on any date the Bank determines in good faith (which determination will be conclusive) that its ability to maintain an outstanding LIBOR Loan has become impractical, unlawful or impossible because of: (a) any change in Applicable Law (whether or not having the force of law but of a kind which is intended to be generally complied with by banks) or regulations, or in the interpretation or administration thereof by competent authorities, or (b) any material adverse change in or the termination of the LIBOR Market or (c) the imposition of any condition, restriction or limitation upon any lender by any Canadian or foreign Governmental Authority, then in any such case the Bank will promptly give notice thereof (by to be confirmed in writing) to the Borrower and the Borrower will forthwith repay to the Bank all outstanding LIBOR Loans which have been made by the Bank to the Borrower together with all unpaid interest accrued thereon to the date of repayment and all other costs, expenses and damages incurred in connection with the termination.
- (f) The Borrower shall, on demand, indemnify and hold harmless the Bank from and against any losses, damages, costs or expenses (including, but not limited to, loss of profit) which it may sustain in employing deposits to effect, fund or maintain a LIBOR Loan as a consequence of any failure by the Borrower to make any payment when due of any amount due hereunder in connection with such LIBOR Loan. The Borrower shall, on demand, further indemnify and hold harmless the Bank from and against any losses, damages, costs or expenses (including but not limited to, loss of profit) which the Bank incurs as a result of the failure of the Borrower to consummate any borrowing of which it has given notice to the Bank. A certificate as to such loss, damages, costs or expenses setting forth the calculations therefor, will be promptly delivered to the Borrower and will be prima facie evidence of such losses, damages, costs or expenses and be binding on the Borrower except for manifest error.

7.08 Breakage Costs

The Borrower acknowledges that Repayments and Conversions are not permitted in respect of Advances made by way of Bankers' Acceptances and LIBOR Loans, extensions of credit under the Risk Management Facility or Outstanding Advances converted to a fixed rate of interest pursuant to Section 3.09; however if for any reason a Bankers' Acceptance, LIBOR Loan, extension of credit under the Risk

Management Facility or such an Outstanding Advance is repaid or converted prior to the scheduled maturity date thereof (whether as a result of acceleration or otherwise), the Borrower agrees to pay to the Bank upon demand all losses, damages, costs and expenses which the Bank incurs as a result of such Repayment or Conversion prior to the said scheduled maturity date. Such losses, damages, costs and expenses shall include any and all breakage costs (such breakage costs to be determined in accordance with the Bank's standard procedures for commercial borrowers). A certificate as to such losses, damages, costs or expenses setting forth the calculations therefor will be *prima facie* evidence of such losses, damages, costs or expenses and be binding on the Borrower except for manifest error.

7.09 Letters of Credit

The following provisions shall be applicable to each accommodation in the form of a Letter of Credit under the Operating Facility:

- (a) No Letter of Credit shall have an expiry date (a) beyond 364 days following its issue date or (b) on any day after the Operating Facility Maturity Date. Letters of Credit may, subject to the foregoing and all other provisions of this Agreement, be renewed by the Bank from time to time upon or within thirty (30) days prior to each stated expiry date thereof.
- (b) The Borrower shall, upon demand by the Bank, pay to, reimburse, indemnify and hold the Bank harmless from and against any and all amounts, claims, demands, liabilities, payments, costs, damages, charges, fees and expenses (including reasonable legal fees and out of pocket expenses) incurred, paid or suffered by the Bank pursuant to or in respect of any and all Letters of Credit issued by the Bank at the request or for the benefit of the Borrower. The Borrower shall pay to the Bank any amount paid by the Bank to the beneficiary of a Letter of Credit in the same currency in which such Letter of Credit is denominated. Letters of Credit may only be denominated in Canadian Dollars or U.S. Dollars.
- (c) The receipt by the Bank of the documents referred to in any Letter of Credit shall be sufficient authority for the Bank to pay to the beneficiary of such Letter of Credit the amount or amounts from time to time which the beneficiary is entitled to draw thereunder and it shall not be necessary for the Bank to verify or make any inquiries with respect to any of such documents, the amount or amounts requested or any other matter or thing whatsoever. The obligation of the Borrower to reimburse the Bank for all drawings under Letters of Credits shall be absolute and unconditional, irrespective of (i) any lack of validity or enforceability of any Letter of Credit, (ii) the existence of any claim, set-off, defence or other right which the Borrower or any Person may have at any time against the beneficiary under any Letter of Credit, (iii) any draft or other document presented under any Letter of Credit proving to be forged, fraudulent or invalid or any statement therein inaccurate; and (iv) any other circumstances or event whatsoever. In making any payment under any Letter of Credit, the Bank shall be entitled to rely exclusively on the documents presented to it under such Letter of Credit. Any non-compliance in any immaterial respect of the documents presented under such Letters of Credit by the Bank shall not affect the Borrower's obligations hereunder. The foregoing authority is irrevocable by the Borrower.

- (d) Without limiting the generality of the foregoing Section 7.09(c), the Bank shall not be liable or responsible for (or have any duty to make any inquiry in respect of) the validity, sufficiency, authorization, execution, correctness, genuineness or legal effect of any document delivered to the Bank pursuant to the provisions of any Letter of Credit or the good faith or acts of the beneficiary or any other person whatsoever. The Borrower fully and unconditionally assumes and undertakes all such risks with respect to the issuance by the Bank of any Letter of Credit at its request and on its behalf for the acts, omissions or misuse by any beneficiary or any of its successors, assigns or other persons who may be entitled to rely upon any Letter of Credit. The foregoing authorization is irrevocable by the Borrower.
- (e) The obligations and liabilities of the Borrower hereunder are irrevocable and shall continue in full force and effect until all amounts owing by the Borrower to the Bank hereunder are paid in full and all Letters of Credit issued by the Bank hereunder expire or are terminated and the original copies of any such terminate Letters of Credit are returned to the Bank's possession for cancellation.
- (f) The Borrower hereby authorizes the Bank, at any time in the Bank's discretion, to refrain from extending or renewing the term of any Letter of Credit even if the effect thereof is to cause the holder thereof to draw upon the Letter of Credit. Upon any such draw, the indemnity contained herein shall apply and upon any such payment by the Bank, the Borrower shall forthwith reimburse the Bank for the amount of such payment by the Bank.
- (g) The Borrower shall, upon demand by the Bank, pay to the Bank, in addition to all other amounts payable by it to the Bank hereunder, an amount equal to the aggregate amount of withholding tax and all other taxes (other than taxes on the overall net income, assets or capital of the Bank) payable by the Bank in respect of all amounts paid or payable by the Bank pursuant to any Letter of Credit in accordance with the provisions of this Agreement.
- (h) In the event that any Letter of Credit is amended (whether to extend any time referred to in the Letter of Credit, to increase the amount thereof or otherwise), all provisions of this Section 7.09 shall remain in full force and effect and the Borrower shall not be released from its obligations or liabilities hereunder.
- (i) Any amount in respect of which the Borrower is obligated to indemnify or reimburse the Bank under the terms of the application and indemnity agreement in respect of any Letter of Credit (including without limitation any amount paid by the Bank under such Letter Credit) shall constitute a Prime Rate Loan or a U.S. Base Rate Loan, as applicable, made by the Bank to the Borrower under the Operating Facility and shall bear interest accordingly in accordance with the provisions of this Agreement, in each case from and after the date on which payment, costs or expenses in respect of which such indemnity or reimbursement obligation arises, is made or incurred by the Bank.
- (j) If any Letters of Credit shall be outstanding (and the originals thereof have not been returned to the Bank for cancellation) on the Operating Facility Maturity Date, the Borrower shall pay to the Bank on such date an amount equal to the aggregate amount

of all Letters of Credit then outstanding, to be held by the Bank as collateral for any future draws under such Letters of Credit by the beneficiaries thereof.

7.10 Determination of Equivalent Amounts

Whenever it is necessary or desirable in this Agreement to determine the Equivalent Amount in Canadian Dollars of an amount expressed in U.S. Dollars, or vice-versa (specifically including for greater certainty the determination by the Bank of the Term Facility Limit and the Credit Facility Limit), the Equivalent Amount shall be determined by reference to the applicable Exchange Rate.

7.11 Additional Payments

If there is a change in or introduction of any Applicable Law (whether or not having the force of law but of a kind which is intended to be generally complied with by banks) or in the interpretation thereof by any Governmental Authority charged with the administration thereof or by any court of competent jurisdiction, and as a result:

- (a) the Bank incurs a cost (which it would not otherwise have incurred) or becomes liable to make a payment (calculated with reference to the amount outstanding or available under a Credit Facility) with respect to continuing to provide or maintain a Credit Facility for the Borrower hereunder (other than a tax such as a capital or franchise tax or a tax imposed on the income of the Bank);
- (b) any reserve, special deposit or similar requirement is imposed or increased with respect to a Credit Facility increasing the cost thereof to the Bank; or
- (c) the Bank suffers or will suffer a reduction in the rate of return on its overall capital (other than a reduction by reason of any increase in the taxes referred to in (a) above) as a result of the amount of the capital that the Bank is required to maintain being increased or of any change in the manner in which the Bank is required to allocate its resources;

then the Borrower shall, upon receipt of written notice from the Bank, pay to the Bank such amount as will compensate the Bank for and will indemnify the Bank against such increases in cost or reductions of rate of return, accruing from and after the date which is fifteen (15) days after receipt of such notice. The notice issued by the Bank shall set out the amount and basis for the amount of such additional payment required, and shall be conclusive and binding absent manifest error. The Bank shall be entitled to use averages and estimates in preparing any such notice.

7.12 Taxes and Withholding Tax Gross-Up

- (a) All principal, interest, fees, costs and other amounts due hereunder shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (other than taxes in respect of the net income or capital of the Bank) imposed or levied by or on behalf of any Governmental Authority having the power to tax. If any such withholding or deduction is required by law, the Borrower shall pay all additional amounts to the Bank as may be necessary in order that the net amount received by the Bank after such withholding or deduction shall equal the amount which would have been received by

the Bank in the absence of such withholding or deduction. Without limiting the generality of the foregoing, if the Bank becomes liable for any taxes as a result of a payment having been made by the Borrower to it without withholding taxes having been deducted or withheld as required by Applicable Law, the Borrower shall indemnify and hold harmless the Bank for any such taxes required to be paid by the Bank and this indemnity shall survive the repayment of the Obligations and the termination of this Agreement.

- (b) To the extent that the Borrower does not pay any taxes required to be paid by it hereunder and the Bank is obligated to and pays any such taxes, the Borrower covenants and agrees to indemnify and hold harmless the Bank from and against any and all such payments made by the Bank together with any penalties, interest and other reasonable costs and expenses incurred in connection therewith whether or not such taxes were correctly or legally imposed on the Bank by the relevant Governmental Authority. A certificate as to the amount of such payment by the Borrower shall be conclusive evidence of the amount owing pursuant to this indemnify absent manifest error.
- (c) With respect to any taxes required to be paid by the Borrower in respect of payments by it hereunder as contemplated by this Section 7.12, the Borrower shall deliver to the Bank the original or a certified copy of receipt issued by the applicable Governmental Authority evidencing such payment as soon as practicable after the making of such payment (and in any event within 30 days after the making of such payment).

7.13 Currency

Subject to the other conditions contained herein, Advances under the Credit Facilities that are Prime Rate Loans or Bankers' Acceptances shall only be denominated in Canadian Dollars and Advances under the Credit Facilities that are U.S. Base Rate Loans or LIBOR Loans shall only be denominated in U.S. Dollars, and any Advance denominated in any such currency shall be repayable and all interest and fees in respect thereof or in connection therewith, shall accrue and be payable, by the Borrower in like currencies.

7.14 Arrangement Fee

The Borrower shall pay to the Bank a non-refundable arrangement fee in the amount of \$130,000 which shall be paid to the Bank by the Borrower on the date of the first Advance and the Borrower shall direct the Bank to deduct such amount from the first Advance by the Bank to the Borrower hereunder.

7.15 Additional Mandatory Repayments

- (a) In addition to the Repayments required under Section 3.03 and Section 4.03, the Borrower agrees to make the following Repayments (none of which shall be deemed a Prepayment) in respect of the Term Facility and the Capex Facility, in each case in reverse chronological order with payments to be applied first to the Term Facility and, if the Term Facility has been repaid in full, then to the Capex Facility:

- (i) if any Company receives proceeds from a policy of insurance, except to the extent that such proceeds are permitted to be retained by such Company as provided for in Article IX, then the Borrower (in the case of itself or for any Company) agrees to make a Repayment on account of the Obligations in an amount equal to such net proceeds within one hundred and eighty (180) days after such proceeds are received by such Company, unless such net proceeds are used by such Company to obtain replacement or substitute property or restore such property which was the subject of the insurance claim before the expiry of such time period;
 - (ii) subject to Section 9.02(d), if any Company or Companies receive proceeds from any transaction or transactions involving the sale, leasing or other disposition of any individual asset, assets or group of assets for net proceeds in an aggregate amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) in any Fiscal Year, then unless within one hundred and eighty (180) days after such disposition the applicable Company or Companies has used the proceeds to purchase similar or replacement assets, then the Borrower agrees to make a Repayment under the Term Facility in an amount equal to the amount of such aggregate net proceeds in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) on or before the date one hundred and eighty (180) days after such disposition;
 - (iii) if any Company receives proceeds from any Total Funded Debt (other than in respect of Advances under this Agreement or capital leases) or equity issuances (other than any subsequent issuances of equity issued to shareholders that own shares on the date of closing (or any of their respective Affiliates as permitted by the Shareholder Agreement) or to employees which proceeds shall instead be applied to the Operating Facility), then the Borrower (in the case of itself or for any Company) agrees to make a Repayment on account of the Obligations in an amount equal to such net proceeds within one (1) Business Day after such payment is received by such Company, unless such Total Funded Debt or equity issuance is incurred by such Company in connection with an approved Investment specifically permitted by the provisions of this Agreement or otherwise approved and consented to by the Bank; and
 - (iv) if the Total Funded Debt to EBITDA Ratio for any Fiscal Year is equal to or greater than 2:50:1, then the Borrower agrees to make a Repayment on account of the Obligations under the Term Facility or the Capex Facility, as applicable, in an amount equal to fifty percent (50%) of the Annual Excess Cash Flow within thirty (30) days after the delivery of the audited annual financial statement pursuant to Section 9.04(c); provided, however, that any Repayments made by any Company to the Bank pursuant to subsection 7.15(a)(i), (ii) or (iii) above shall reduce the amount payable under this subsection (iv) by an amount equal to the aggregate of any such Repayments made during the applicable Fiscal Year.
- (b) As used in this Section 7.15 "net proceeds" in respect of any such transaction means the gross amount of proceeds received by any Company in respect of such transaction less any sales commissions, reasonable costs and expenses of the transaction and any other amounts specifically approved in writing by the Bank.

- (c) Each Repayment made in respect of the Term Facility or the Capex Facility, as applicable, shall be applied against the Outstanding Advances under such Credit Facility in reverse chronological order. The Term Facility Limit shall be automatically and permanently reduced by the amount of any such Repayments contemplated by this Section 7.15.

ARTICLE VIII - REPRESENTATIONS AND WARRANTIES

8.01 General Representations and Warranties

The Borrower hereby represents and warrants to the Bank as follows, with respect to itself and also with respect to each of its Subsidiaries:

- (a) Corporate Status - It has been duly incorporated, amalgamated and/or organized and is validly subsisting and in good standing under the laws of its jurisdiction of organization.
- (b) Power and Authority - It has full corporate power, authority and capacity to enter into and to perform all its obligations contemplated by this Agreement (in the case of the Borrower) and the other Loan Documents to which it is a party. The consummation of the transactions contemplated by this Agreement, execution and delivery to the Bank of the Loan Documents to which it is a party, and compliance with the terms and conditions of this Agreement and the other Loan Documents to which it is a party (i) will not conflict with, result in a breach of, or constitute a default under, its charter documents, by-laws or any agreement among its shareholders, or result in a breach of, default under or the creation of any Lien on its properties under, any Material Agreement and (ii) does not require the consent or approval of any Person which has not been obtained.
- (c) Authorization and Enforceability of Documents - It has taken or caused to be taken all necessary action to authorize, and has duly executed and delivered this Agreement (in the case of the Borrower) and the other Loan Documents to which it is a party; and there are no provisions in any shareholder agreement or other constating documents (including a limited partnership agreement, as applicable) which restrict or limit its powers to borrow money, provide Guarantees or grant security. Each of the Loan Documents to which it is a party constitutes a legal, binding and valid obligation enforceable against it in accordance with the terms subject to (i) the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization and other similar laws affecting creditors' rights generally; and (ii) the extent that equitable principles may limit the availability of certain remedies including remedies of specific performance and injunctive relief, which equitable remedies may only be granted in the discretion of a court.
- (d) Approvals; Licences, etc. - It has the corporate power to own or lease its property and to carry on its business as now conducted by it. It is conducting its business in material compliance with all Applicable Law of each jurisdiction in which it carries on business and is duly licenced, registered and qualified to do business and is in good standing in

each jurisdiction in which the nature of the business conducted by it or the property owned or leased by it make such qualification necessary, and all such licences, registrations and qualifications are valid and subsisting and in good standing.

- (e) Corporate Structure - Schedule 8.01(e) contains a true and complete list of the Companies and all Related Persons, indicating for each Company its issued and outstanding capital or partnership units, registered shareholders or unit holders (and whether such capital or units are voting or non-voting), jurisdiction of incorporation or organization registered and/or chief executive office, principal place of business, locations at which it has places of business and all jurisdictions (including address locations) in which any of its property or assets are located. Schedule 8.01(e) also contains a true and complete list of the Companies and all Related Persons, as such Companies will exist immediately after (a) the Target Acquisition and (b) the Borrower/Target Amalgamation. As at the date of this Agreement, no Company owns any equity interest or ownership interest in any person which is not listed on Schedule 8.01(e). There are no agreements or restrictions which in any way limit or restrict any transfer of its shares or partnership units, as applicable or enforcement by the Bank of any Security in respect thereof (save and except for any applicable private share transfer restrictions).
- (f) Ownership of Assets; Specific Permitted Liens - It owns, possesses and has a good and marketable title to its property, assets and undertaking (including any Owned Properties) free and clear of any and all Liens except for Permitted Liens; and it has no commitment or obligation (contingent or otherwise) to grant any Liens except for Permitted Liens. Schedule 8.01(f) attached hereto contains a true and complete list of the Specific Permitted Liens affecting such Company and its Subsidiaries as at the date of this Agreement. No event has occurred which constitutes, or which with the giving of notice, lapse of time or both would constitute, a material default under any said Specific Permitted Lien. Except for the Shareholder Agreement and employee stock options outstanding or to be issued in the future, no Person has any agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, including convertible securities, warrants or convertible obligations of any nature, for the purchase of any of its properties or assets out of the ordinary course of business or for the purchase, subscription, allotment or issuance of any its debt or equity.
- (g) Owned Properties - Schedule 8.01(g) attached hereto contains a true and complete list of its Owned Properties.
- (h) Leased Properties - Schedule 8.01(h) attached hereto contains a true and complete list of its Leased Properties.
- (i) Material Agreements - Schedule 8.01(i) attached hereto contains a true and complete list of all Material Agreements to which it is a party and a description of the nature of each said Material Agreement. Each said Material Agreement is in good standing in all material respects and in full force and effect; and neither it nor, to its knowledge, any of the other parties to such agreements is in breach in any material respect of any of the material terms, covenants or provisions contained therein; and no event has occurred

which constitutes or which with the giving of notice, lapse of time or both would constitute a material default by it under or in respect of any such agreement.

- (j) Intellectual Property - It possesses all licences, franchises, permits, registrations, patents, patent applications, trademarks, trademark applications, trade names, trade name rights, service marks, service mark rights, copyrights and other forms of intellectual property (collectively "**Intellectual Property**") which are material to the conduct of its businesses as now conducted; and it owns and possesses or has the right to use such Intellectual Property and is not in violation of any valid rights of others with respect thereto. Attached as Schedule 8.01(j) is a complete list of all registered Intellectual Property of each of the Companies. The business carried on by it does not infringe the Intellectual Property of any other Person. It owns or licences, free of adverse claim, all material Intellectual Properties by and in connection with its business and any licences comprising the Intellectual Property are in good standing.
- (k) Insurance – It maintains all insurance coverages required to be maintained by and in accordance with the provisions of this Agreement. In the last three years no insurance policy has been cancelled by the insurer and no insurer has refused to renew any insurance coverage.
- (l) Labour Agreements - It has no contracts with any labour union or employee association and it has not made any commitments to or conducted negotiations with any labour union or employee association with respect to any future agreements and it is not aware of any current attempts to organize or establish any such labour union or employee association. It has experienced no work stoppages or strikes (legal or otherwise) in the three (3) years preceding the date of this Agreement. There are no material claims or grievances, pending or threatened, against it by any of its employees other than employee grievances arising in the ordinary course of business which are not, in the aggregate, material.
- (m) Pension Plans – No Pension Plan has been established by or in respect of any Company.
- (n) Applicable Law/Environmental Laws – It is in compliance in all material respects with all Applicable Law. It is in compliance in all material respects with all Requirements of Environmental Law. Except as disclosed in Schedule 8.01(n) attached hereto, all Hazardous Materials situated in, on or under any Owned Properties, Leased Properties or any other lands or upon which it carries on business (provided that with respect to Hazardous Materials situated on Leased Properties or lands not owned by it, such representation is made to the best of its knowledge, without independent investigation) have been maintained in material compliance with all Requirements of Environmental Law. There are no legal or administrative proceedings, investigations, claims or violation notices threatened or pending against it with respect to the presence on or under, or the discharge, emission, spill, radiation or disposal into or upon any land, the atmosphere, or any watercourse or body of water, of any Hazardous Material or in respect of Requirements of Environmental Law; nor are there any matters under discussion between it and any Governmental Authority relating thereto; and there is no factual basis for any such proceedings, investigations or claims.

- (o) Financial Statements – For and in respect of the Borrower, the Target and KKP, the audited financial statements in connection with their respective most recently completed two (2) fiscal years and their respective unaudited consolidated financial statements for the nine (9) month period ended as of June 30, 2011 delivered to the Bank have been prepared in accordance with GAAP on a basis which is consistent with previous fiscal years and fiscal quarters and present fairly:
- (i) its assets, liabilities (whether accrued, absolute, contingent or otherwise) and its financial condition as at the dates therein specified; and
 - (ii) its earnings and results of its operations during the periods covered thereby; provided, however, the financial statements for the nine (9) month period ended as of June 30, 2011 lack footnotes and other presentation items required by GAAP and are subject to normal year end audit adjustments (which will not be material).

In connection with the delivery of the financial statements for the Target and KKP, the Borrower's representation contained in this Section 8.01(o) is made to the best of the knowledge of the Borrower after due inquiry. As of the date of this Agreement, since the date of the most recent financial statements of the Target and KKP provided to the Bank, no Material Adverse Change has occurred (or would be deemed to have occurred if the Target was deemed to be a Subsidiary of the Borrower prior to the completion of the Target Acquisition).

- (p) No Undisclosed Liabilities – Other than as listed in Schedule 8.01(p), to its knowledge after due inquiry, no Company has any liabilities of any kind whatsoever, whether or not accrued and whether or not determined or determinable, other than:
- (i) liabilities disclosed on, reflected in or provided for in its said financial statements;
 - (ii) liabilities owing to the Vendor pursuant to the Target Purchase Agreement;
 - (iii) liabilities incurred in the ordinary course of business since the date of its said financial statements; and
 - (iv) liabilities disclosed or referred to in this Agreement.
- (q) Financial Information - All financial information relating to it which has been delivered to the Bank is complete and accurate in all material respects and there has been no Material Adverse Change in its financial position or operations since the date of its most recent financial statements provided to the Bank.
- (r) No Guarantees - It is not obligated under any Guarantees except in favour of the Bank and the other Guarantees listed on Schedule 8.01(r).
- (s) Tax Returns - It has duly and timely filed all tax returns required to be filed by it and has paid all taxes on or before the date such taxes are due and payable and has paid all assessments and re-assessments and all other taxes, charges, penalties and interest due

and payable by it on or before the date hereof, except to the extent that it is diligently contesting any such taxes, assessments, charges or levies in good faith and has established reserves satisfactory to the Bank; and there are no actions, suits, proceedings, investigations or claims threatened or, to the knowledge of any Company after due inquiry, pending against it in respect of taxes, governmental charges or assessments or any matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments asserted by any such Governmental Authority.

- (t) Statutory Liens - It has remitted on a timely basis (and in any event not more than two weeks after the due date thereof) all amounts which are or may become subject to Statutory Liens, including for greater certainty all amounts required to be withheld in respect of employee wages and salaries (including withholdings relating to income tax, employment insurance, Canada Pension Plan or other applicable contributions), and amounts payable in respect of goods and services tax.
- (u) No Litigation/Default in Judgements - There are no legal proceedings pending, or to its knowledge after due inquiry threatened against it, before any court or administrative agency of any country which if determined adversely to its interest would not be fully covered by insurance or which in the aggregate exceed \$250,000 in claims, or which, could reasonably be expected to cause a Material Adverse Change, and it is not aware of any existing grounds on which any such legal proceedings might be commenced with any reasonable likelihood of success. It is not in default with respect to any judgement, order, injunction, decree or award of any arbitrary, court or Governmental Authority.
- (v) Certain Events - No event has occurred which (i) constitutes a Default or an Event of Default or (ii) since September 30, 2010 has caused or could reasonably be expected to cause a Material Adverse Change.
- (w) No Adverse Information - It is not aware of and has not withheld from the Bank any information or any other matter of a material nature which has been requested by the Bank in connection with the negotiations and consummation of this Agreement.
- (x) Terms of Agreements - It is not in breach of any agreement which would reasonably be expected to cause a Material Adverse Change.
- (y) Fiscal Year - The Fiscal Year end for the Borrower is September 30 and the Fiscal Year end of each of the Target and KKP is September 30. The Fiscal Year end of the Amalgamated Borrower is and shall be September 30 (this sentence shall automatically supercede and replace the immediately preceding sentence in Section 8.01(y) immediately upon completion of the Borrower/Target Amalgamation).
- (z) Permitted Debt - It has not incurred or agreed to incur any Total Funded Debt other than as specifically permitted to be incurred in accordance with Section 9.02(a) below.
- (aa) Consents - All consents and approvals from third parties (including (i) any Governmental Authority or (ii) parties to any Material Agreements) necessary for the Borrower, the Target and KKP to enter into and perform their respective obligations in connection with the Target Acquisition have been obtained, and the completion of the Target Acquisition

will not violate any Applicable Law or any agreements to which the Borrower, the Target or KKP is a party.

- (bb) Borrower Liabilities – As of the date of this Agreement and the date of the Target Acquisition, the Borrower has no assets other than cash and the capital stock which the Borrower owns in the Target, and the Borrower is not indebted to any Person for any indebtedness, liabilities or obligations, direct or indirect, absolute or contingent, except for expenses related to the Target Acquisition and the Borrower/Target Amalgamation and the Borrower has not granted any Liens against any of its property, assets or undertaking.
- (cc) Transactions with Related Persons – It is not a party to any contract, commitment or transaction (including by way of loan) with any Related Person thereto which contains any terms which are not commercially reasonable.

8.02 Survival of Representations and Warranties

The Borrower, for and on behalf of itself and each of its Subsidiaries, hereby acknowledges that the Bank is relying upon the foregoing representations and warranties in connection with the establishment and continuation of the Credit Facilities and in connection with the Bank entering into any FEFCs or Interest Rate Management Products with the Borrower. The said representations and warranties shall survive the execution and delivery of this Agreement and the making of all Advances from time to time hereunder, notwithstanding any investigations which may be made by the Bank, and shall be deemed to be made and repeated as being true and correct in all material aspects on each day that this Agreement or any of the Loan Documents remains in force and effect or on which any Obligations remain owing to the Bank (except where expressly given as of a specified date, in which case such representations and warranties shall be true and correct as of such date). The Borrower further acknowledges and agrees that in addition to the above provisions of this Section 8.02, it is a condition precedent to each Advance, Conversion or Rollover or any other extension of credit hereunder that each such representation and warranty shall remain true and correct in all material respects as if made on the date of such Advance, Conversion, Rollover or other extension of credit (except where expressly given as of a specified date, in which case such representations and warranties shall be true and correct as of such date).

8.03 Representations and Warranties (as applicable to the Target and KKP)

The Borrower confirms and agrees that immediately upon completion of the Target Acquisition, and until the Borrower/Target Amalgamation, each of the Target and KKP shall be and shall be deemed to be a "Subsidiary" for all purposes of this Agreement. Without limiting the generality of the foregoing, the Borrower confirms and agrees that all representations and warranties contained in Section 8.01 shall be applicable to each of the Target and KKP at all times and for all purposes of this Agreement (both before and after the completion of the Target Acquisition but only until the completion of the Borrower/Target Amalgamation) as if each of the Target and KKP was and has been a Subsidiary prior to the initial Advance hereunder and the completion of the Target Acquisition.

ARTICLE IX - COVENANTS

9.01 Positive Covenants

The Borrower hereby covenants and agrees with the Bank that it will, and will cause each of its Subsidiaries to:

- (a) Prompt Payment - pay all principal, interest and other amounts payable by it to the Bank pursuant to this Agreement and the Security promptly when due;
- (b) Inspection - permit the Bank and its employees and agents to enter upon and inspect its property, assets, books and records from time to time, (i) prior to a Default, at reasonable times and upon reasonable notice, and (ii) at all other times, at any time with or without notice to the Borrower; and to permit the Bank and its employees and agents to examine all computer and other electronic records with respect thereto and to make copies of all books and account and other records;
- (c) Compliance with Agreements with Bank - perform and satisfy all covenants and obligations to be performed by it under this Agreement and the other Loan Documents;
- (d) Notice - provide prompt written notice to the Bank after becoming aware of any of the following: (i) a Default or Event of Default, (ii) any event which has caused or could reasonably be expected to cause a Material Adverse Change, (iii) any representation or warranty contained herein or in any other Loan Document being or becoming false or inaccurate in any material respect; or (iv) an event which constitutes, or with the giving of notice, passage of time or both, would constitute a material default under any Permitted Lien;
- (e) Preservation of Corporate Existence - maintain its corporate existence, preserve its rights, powers, permits, licences, privileges, franchises and goodwill, and exercise any rights of renewal or extensions of any leases, licences, concessions, franchises or any other rights whatsoever which are necessary or material to the conduct of its business and carry on and conduct its business in a proper and efficient manner so as to protect its property and the earnings, income, rents and profits of its business; and not materially change the nature of its business;
- (f) Payment of Taxes, etc. - pay and discharge promptly, when due (i) all taxes, assessments and governmental charges or levies lawfully imposed upon it or upon its property, except to the extent that it is diligently contesting any such taxes, assessments, charges or levies in good faith and has established reserves satisfactory to the Bank; and (ii) all amounts which are or may become subject to Statutory Liens except to the extent being contested in good faith and in respect of which reserves satisfactory to the Bank have been established;
- (g) Maintenance of Insurance - obtain from financially responsible insurance companies and maintain public liability insurance, all-risks property insurance (including coverage for fire damage) on a replacement cost basis, business interruption insurance, product liability insurance, insurance in respect of such other risks as the Bank may reasonably require from time to time and, if Eligible Insured Accounts are, or are contemplated to

be, included in the Operating Facility Margin Amount, the Receivables Policy; all of which policies of insurance shall be in such amounts as may be reasonably required by the Bank and shall include a standard mortgage clause (in the case of the Borrower or Canadian Subsidiaries, such mortgage clause to be approved by the Insurance Bureau of Canada); and cause the interest of the Bank to be noted as first mortgagee and loss payee on such policies (except public liability insurance) and provide to the Bank certificates of insurance and certified copies of such policies from time to time upon request; all insurance coverages maintained by it shall be satisfactory to the Bank, acting reasonably, and the Bank shall be endorsed as first mortgagee and loss payee on all insurance policies (except in respect of liability insurance in which case the Bank shall be named as an additional insured); it shall deliver or cause to be delivered to the Bank certified copies of policies of insurance which are required to be kept in force hereunder (the "Insurance") or certificates of insurance in connection therewith and thereafter, it shall deliver to the Bank certified copies or certificates of the Insurance as the Bank may reasonably request from time to time; each policy of Insurance shall contain a provision that it will not in any way be materially changed or cancelled without at least thirty (30) days' prior written notice to be given by the insurer to the Bank and such policies shall contain an appropriate form of mortgage endorsement satisfactory to the Bank; if it defaults in insuring its property and assets as required hereunder or in so delivering any certificates or policies of Insurance, the Bank (without any obligation to do so) after ten (10) days' notice (and at any time after the occurrence of a Default), at its option, may effect such Insurance and pay the premiums therefor in which case it shall reimburse the Bank for any premium so paid with interest thereon to be calculated at the rate per annum at such time equal to interest to be paid by the Borrower on Prime Rate Loans, as the case may be, all of which shall be payable upon demand and until paid shall form part of the Obligations and shall be secured by the Security; Borrower shall immediately notify Bank of (i) a cancellation of a Receivables Policy, and (ii) any event of loss or casualty event in excess of \$100,000 in respect of the Eligible Insured Accounts;

- (h) Compliance with Laws - comply in all material respects with all Applicable Law (specifically including all Requirements of Environmental Law) and obtain and maintain in good standing all material leases, licences, permits and approvals from any and all Governmental Authorities required in respect of its operations;
- (i) Maintenance of Properties - maintain and preserve all of its material properties which are used in the conduct of its business in good working order and condition, ordinary wear and tear excepted;
- (j) Keeping of Books - keep books of record and account in accordance with GAAP in effect from time to time, applied in a consistent manner from period to period;
- (k) Environmental Information - provide to the Bank from time to time (i) such information and further assurances as the Bank may reasonably require concerning the nature of the Hazardous Materials disclosed in Schedule 8.01(n) attached hereto in order to establish to the Bank's satisfaction, acting reasonably, that such Hazardous Materials are being stored and handled prudently and in compliance with all Requirements of Environmental Law; and (ii) a copy of any written notice, claim or other proceeding or

investigation against or in respect of it or its property and assets with respect to any Requirements of Environmental Law received by it, except for routine inspections;

- (l) Transactions With Related Persons – except for the transactions and agreements contemplated in connection with the Target Acquisition (including the Management Agreement), conduct all transactions with Related Persons, to the extent permitted by the terms of the Loan Documents, on terms that are fair and reasonable and no less favourable to it than it would obtain in any comparable arm's length transaction with a Person that is not a Related Person;
- (m) Landlord Agreements – prior to entering into any new leases of real property, obtain a Landlord Agreement from the landlords of such Leased Property;
- (n) Future Owned Properties - notify the Bank in writing prior to the acquisition by it of any Owned Properties after the date of this Agreement, and concurrently with the completion of such acquisition transaction, execute and deliver Security to the Bank and cause same to be registered to ensure that the Security shall at all times constitute a first priority Lien against such future Owned Properties together with such other supporting documents and legal opinions, all as contemplated by Article X;
- (o) Notice of Material Litigation - deliver or cause to be delivered appropriate notice of (a) any claims or proceedings which are commenced and which involve, in the aggregate, an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) or the U.S. Dollar Equivalent Amount thereof and (b) any judgment or order in respect of which it is obligated to pay an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) or the U.S. Dollar Equivalent Amount thereof;
- (p) Financial Analysis - ensure that all financial analysis and statements delivered to the Bank in connection with or required by the terms of this Agreement are prepared in good faith based on assumptions believed by it to be reasonable;
- (q) Further Assurances – provide the Bank with such further information, financial data, documentation and other assurances as it may reasonably require from time to time in order to ensure ongoing compliance with the terms of this Agreement;
- (r) Payment of Obligations – pay its obligations, including tax liabilities, that, if not paid, could reasonably be expected to result in a Material Adverse Change before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Change;
- (s) Intellectual Property –
 - (A) maintain all necessary registration and applications for registration for any Intellectual Property which is material for its business in good standing, including without limitation paying all fees and making all such filings as may be required from time to time;

- (B) notify the Bank if it knows, or has reason to know, of any application or registration relating to any Intellectual Property material to the business of any of the Companies that may expire, become abandoned or dedicated to the public domain, or of any material adverse determination or development (including the institution of, or any such determination in, any proceeding in the Canadian Intellectual Property Office, the United States Patent and Trade Mark Office or any court or tribunal in any country) regarding the ownership by any Company of any material Intellectual Property or its right to register the same or to keep and maintain the same; and
- (C) report to the Bank registration, or any application for the registration, of any Intellectual Property material to the business of the Companies taken as a whole with any intellectual property office within 30 days after the last day of the Fiscal Quarter of the Borrower in which such application occurs (whether any such application is made by itself or through any agent, employee, licensee or designee);
- (t) Bank Accounts – maintain all depository bank accounts with the Bank;
- (u) Amalgamated Borrower Security – in the event that for any reason whatsoever, the Borrower/Target Amalgamation is not completed on the date on which the initial Advance is made by the Bank to the Borrower hereunder, then in such case, the Borrower shall cause each of the Target and KKP to deliver to the Bank such additional documentation as the Bank may reasonably require including certified resolutions of the board of directors of each of the Target and KKP and opinion letters from the law firms for each of the Target and KKP, all in form and substance satisfactory to the Bank acting reasonably; and
- (v) Use of Proceeds – The proceeds of all Advances (after the initial Advance) will be used only for the general corporate purposes of the Borrower and its subsidiaries in the ordinary course of business including permitted capital expenditures and permitted acquisitions.

9.02 Negative Covenants

The Borrower hereby covenants and agrees with the Bank that it will not, and will ensure that each of its Subsidiaries does not, without the prior written consent of the Bank:

- (a) Incur Liabilities - create or incur any Total Funded Debt except for (i) the Obligations, (ii) unsecured indebtedness incurred in the ordinary course of business to suppliers of goods and services; (iii) indebtedness secured by Permitted Liens; and (iv) the BMOCC Loan;
- (b) Liens - grant or permit to exist any Lien in respect of any portion of its property or assets, except Permitted Liens;
- (c) Guarantees - become liable under any Guarantees, except in favour of the Bank, and except for Guarantees listed on Schedule 8.01(r) delivered prior to the date of this Agreement;

- (d) Disposition of Assets - directly or indirectly sell or otherwise dispose of any of its assets in an amount greater than \$250,000 in the aggregate in any Fiscal Year, except that (i) inventory may be sold in the ordinary course of business, (ii) surplus or obsolete assets may be sold if replaced with similar assets having an equal or greater value, (iii) damaged or obsolete assets may be disposed of in the ordinary course of business and (iv) assets may be sold in compliance with Section 7.15(a)(ii) up to the maximum aggregate amount of \$500,000 per Fiscal Year;
- (e) Corporate Changes – except for the Borrower/Target Amalgamation, (i) liquidate or dissolve or enter into any consolidation, merger, amalgamation, partnership, joint venture or other combination; or (ii) enter into any transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other Person, whether by way of reconstruction, reorganization, recapitalization, consolidation, amalgamation, merger, transfer, sale or otherwise;
- (f) Related Person Transactions - enter into any contract with any Related Person for the sale, purchase, lease or other dealing in any property or services, except: (i) in connection with a transaction involving the purchase of goods or services, at an amount not exceeding the fair market value of such goods or services; (ii) in connection with a transaction involving the sale or provision of goods or services, at an amount not less than the fair market value of such goods or services; and (iii) the transactions and agreements contemplated in connection with the Target Acquisition (including the Management Agreement);
- (g) Purpose - request, use or permit any Advance under the Credit Facilities to be used for any purpose other than the purposes specifically set out herein (the Borrower covenants and agrees that the Advances made available to it by the Bank in respect of the Credit Facilities will be used by the Borrower for business purposes only);
- (h) Nature of Business – materially change the nature or operation of its business;
- (i) Amendments to Subordinated Debt – amend the terms of any Subordinated Debt (including the BMOCC Loan);
- (j) Payments of Subordinated Debt – make any payment to any Person on account or in respect of any Subordinated Debt unless (i) at the time of any such payment, no Default or Event of Default has occurred and is continuing and (ii) no Default or Event of Default would be caused or could reasonably be expected to occur as a result of the making of any such payments, and provided further that it shall not make any payment on account or in respect of any Subordinated Debt except to the extent specifically permitted in accordance with the terms of the applicable subordination agreement delivered in favour of the Bank in respect of such Subordinated Debt;
- (k) Sale and Leaseback Transactions – enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or

capital assets by it or any of its Subsidiaries that is made on commercially reasonable terms;

- (l) Amendment of Material Documents – amend, modify or waive any of its rights under its certificate of incorporation, articles, by-laws, operating, management or partnership agreement or other organizational documents, in each case, to the extent any such amendment, modification or waiver could reasonably be expected to be adverse to the Bank;
- (m) Pension Plan – establish any Pension Plan;
- (n) Hedging Transactions – enter into or be a party to any FEFC, Interest Rate Management Product or any other type of hedging arrangement except to the extent contemplated by the provisions of this Agreement and with the Bank as the counterparty thereto, and further provided that it shall not enter into any hedging arrangements for speculative purposes;
- (o) Material Changes –
 - (i) change its name;
 - (ii) change the location of its chief executive office or domicile from that set out in Part I of Schedule 9.02(o) without providing the Bank with thirty (30) days' prior written notice thereof; or
 - (iii) other than (A) assets up to a maximum aggregate amount of \$50,000 at any one location with a maximum aggregate amount for all locations of \$200,000, (B) inventory, sold in the ordinary course of business to customers of a Company, in transit to such customers, or (C) inventory up to a maximum aggregate amount of \$1,000,000 at one or more sub-contractors of the Companies, keep tangible assets at any location other than the location(s) listed in Parts I and II of Schedule 9.02(o) without providing the Bank with thirty (30) days' prior written notice thereof;
- (p) Operating Leases – enter into operating leases in an aggregate amount greater than \$800,000 at any time; and
- (q) Loans - make or permit to exist any loans or advances to any Person, except loans to its employees that in the aggregate do not exceed \$50,000 at any time.

9.03 Financial Covenants

The Borrower hereby covenants and agrees with the Bank that it will:

- (a) Financial Ratios - maintain on a consolidated basis, the financial ratios set out below at all times, based on the most recently completed four Fiscal Quarters of the Borrower (for greater certainty, for each Fiscal Quarter from the initial Advance hereunder through September 30, 2012, in respect of calculating the Fixed Charge Coverage Ratio,

the Total Funded Debt Service from the initial Advance hereunder through September 30, 2012 will be annualized to give pro-forma effect thereto):

- (i) the Senior Funded Debt to EBITDA Ratio at (A) 2.50:1 or less at the date of the initial Advance hereunder to and including September 29, 2013, (B) 2.00:1 or less from September 30, 2013 to and including September 29, 2014 and (C) 1.50:1 or less for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2014;
 - (ii) the Total Funded Debt to EBITDA Ratio at (A) 4.00:1 or less at the date of the initial Advance hereunder to and including March 30, 2012, (B) 3.75:1 or less from March 31, 2012 to and including September 29, 2012, (C) 3.50:1 or less from September 30, 2012 to and including September 29, 2013, (D) 3.25:1 or less from September 30, 2013 to and including September 29, 2014, (E) 2.75:1 or less from September 30, 2014 to and including September 29, 2015 and (F) 2.50:1 or less for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2015;
 - (iii) Fixed Charge Coverage Ratio of (A) 1.10:1 or greater as at the date of the initial Advance hereunder to and including September 29, 2012 and (B) 1.20:1 or greater for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2012; and
 - (iv) the ratio of (x) pro-forma Total Funded Debt to (y) pro-forma Total Funded Debt plus pro-forma shareholder's equity of the Borrower at the date of the initial Advance hereunder at 58% or less at the date of the initial Advance hereunder.
- (b) Capital Expenditures - not make Unfunded Capital Expenditures or permit its Subsidiaries to make Unfunded Capital Expenditures or incur or assume any debt or liability therefor without the prior written consent of the Bank; except that if no Default or Event of Default has occurred and is continuing, or would be caused by such transaction (i) Unfunded Capital Expenditures in an aggregate amount not exceeding \$1,000,000 for the period from the date hereof until September 30, 2012 and (ii) Unfunded Capital Expenditures in an aggregate amount not exceeding an amount to be determined between the Bank and the Borrower based on the Borrower's annual business plan delivered by the Borrower to the Bank hereunder, but for greater certainty, subject to the Bank's consent in any event for each Fiscal Year of the Amalgamated Borrower ending September 30, 2013 and thereafter (for the purposes of this Section 9.03(b), any unused permitted Unfunded Capital Expenditure amount in any Fiscal Year may not be carried over to any future Fiscal Year).
- (c) Distributions - not make any Distributions or permit its Subsidiaries to make any Distributions, except that prior to the Acceleration Date, the following Distributions may be made if both before and immediately after each such Distribution no Event of Default has occurred and is continuing:
- (i) each Company may make Distributions to the extent that such Distributions constitute the payment of bonuses, directors' fees (not exceeding \$50,000 per Fiscal Year) or other remuneration or compensation to its employees, officers or

directors in the ordinary course of its business and are in accordance with the Borrower's historical practice (including employee termination and severance payments) and reimbursement for reasonable out-of-pocket costs and expenses incurred by such employees, officers or directors in the ordinary course of carrying out their respective duties;

- (ii) the Borrower may pay Management Fees to River up to the maximum aggregate amount per Fiscal Year equal to \$210,000 and all reasonable out-of-pocket expenses incurred by River in connection with the provision of services to the Borrower pursuant to the Management Agreement (the "**Out-of-Pocket Expenses**"), subject to and only as expressly permitted by the subordination agreement dated as of the date hereof between River and the Bank; provided that, the Borrower is and shall remain in compliance with all financial covenants contained herein both before and after the making of the proposed payment; provided further that, the payment of Out-of-Pocket Expenses up to the maximum aggregate amount of \$25,000 to River shall also be permitted following the occurrence of an Event of Default; provided further that, any Management Fees or Out-of-Pocket Expenses that accrue but are not paid by the Borrower to River because such payment is prohibited by this Section 9.03(c)(ii) may be paid after the Default or Event of Default causing such prohibition is cured or waived to the extent such payment otherwise complies with the terms of this Section 9.03(c)(ii) and the Borrower shall remain in compliance with all financial covenants contained herein after the making of such proposed payment;
 - (iii) Borrower may make Distributions in respect of the redemption or purchase of shares or partnership units of a terminated employee or director up to the maximum aggregate amount of \$250,000 each Fiscal Year;
 - (iv) Borrower may make Distributions subject to and only as expressly permitted by the intercreditor agreement dated as of the date hereof between the Bank, BMOCC and the Borrower; and
 - (v) each Subsidiary of a Company may make other Distributions to such Company, provided that the Company to whom such Distribution is made has delivered Security in form satisfactory to the Bank.
- (d) Investments - not make, maintain, incur or acquire any Investments or permit its Subsidiaries to make, maintain, incur or acquire any Investments, except that the following Investments may be made, maintained, incurred or acquired if both immediately before and immediately after each such Investment no Default or Event of Default has occurred and is continuing:
- (i) any Company may make an acquisition of all of the voting securities of any Person or all or substantially all of the assets of any Person, provided that (A) within 10 days of such Investment, (y) any Liens previously granted by the entity being acquired or encumbering the assets being acquired have been discharged, and (z) any and all guarantees, Security and other ancillary documents and legal

opinions required by the Bank in accordance with Article X hereof have been delivered and granted in favour of the Bank, all in form and substance satisfactory to the Bank, (B) the assets or entity being purchased must (x) be in a similar type of business as the Borrower, (y) be located in Canada or the United States and (z) contribute positive EBITDA for the Borrower, (C) the acquisition must not be hostile, (D) the aggregate consideration of any such Investment shall not exceed \$250,000 or the Equivalent Amount thereof individually and \$250,000 or the Equivalent Amount thereof in the aggregate each Fiscal Year, (E) if it is an entity being acquired, the Borrower must obtain Control of such entity, and (F) if real property is being acquired as part of the Investment, the Borrower shall have delivered to the Bank a recent Phase I environmental assessment conducted by a qualified environmental consultant, in form and substance satisfactory to the Bank;

- (ii) Investments up to the maximum aggregate amount of \$100,000 in any Fiscal Year;
- (iii) Investments may be made in direct obligations of Canada or the United States of America, including federal, provincial or state obligations, with maturities of one year or less from the date of acquisition of the investment, provided that if required by the Bank, the Company making such Investment shall provide such additional items of Security as the Bank may require in order that such investments shall be specifically pledged to the Bank; and
- (iv) Investments may be made in certificates of deposit issued by the Bank.

For greater certainty, the Borrower shall not make or maintain any Investment or permit its Subsidiaries to make or maintain any Investment in any Person that is a hostile acquisition.

9.04 Reporting Requirements

The Borrower hereby covenants and agrees to deliver or cause to be delivered to the Bank the following financial and other information:

- (a) quarterly unaudited (and, if applicable, consolidated) financial statements for the Borrower prepared in accordance with GAAP by the 45th day after the end of each Fiscal Quarter, consisting in each case of at least a balance sheet, income statement and statement of changes in financial position, certified in each case by the Chief Executive Officer or Controller of the Borrower confirming that such statements present fairly, in all material respects, the financial position of the Borrower (if applicable, on a consolidated basis) as at the date of such statements, together with a variance analysis prepared by the Borrower providing explanations for material variances between the actual results and projections provided by the Borrower to the Bank and related management discussion and analysis;
- (b) a certificate from the Chief Executive Officer, Chief Financial Officer, Controller or Secretary of the Borrower in the form of Exhibit "E" confirming compliance with the financial covenants contained herein with supporting detail as to such calculations and

identifying any material variances from the approved business plan for such Fiscal Year, by the 45th day after the end of each Fiscal Quarter;

- (c) annual audited (and, if applicable, consolidated) financial statements for the Borrower by the 120th day after the end of each Fiscal Year, the schedules (if applicable, on a consolidated basis) incorporating financial statements for each of the Borrower's Subsidiaries (if any), together with all notes thereto, consisting in each case of a balance sheet, statement of changes in financial position and statements of earnings and retained earnings together with detailed comparative figures for the previous Fiscal Year, related management discussion and analysis and a report including calculations of financial covenants and the Annual Excess Cash Flow and a compliance certificate as described in Section 9.04(b);
- (d) the annual (and, if applicable, consolidated) business plan of the Borrower to be completed on a monthly basis, including pro forma balance sheets, income statements, cash flow statements and Capital Expenditures (including capital leases) budget, anticipated tax liabilities, significant assumptions and projected compliance ratios on or before sixty (60) days after the end of each Fiscal Year, in such form and with such detail as may be required by the Bank acting reasonably; the Borrower shall provide or cause to be provided to the Bank any subsequent revisions of the annual business plan as soon as practicable after any revisions are prepared; the Borrower shall cause the final form of the annual business plan for each Fiscal Year to be in form and substance satisfactory to the Bank, acting reasonably;
- (e) an aged listing of accounts receivable and investment grade accounts receivable (with rating on an invoice dated basis), an aged list of accounts payable (including contra accounts and a declaration of any deemed trusts), and an inventory breakdown together with a borrowing base certificate in the form of Exhibit "F" including detailed calculations of Eligible Bank Approved Accounts, Eligible Cdn./U.S. Accounts, Eligible Insured Accounts and Eligible Inventory, certified by the Chief Executive Officer or Controller of the Borrower by the 30th day after the end of each month, confirming that the principal amount of Obligations owing by the Borrower under the Operating Facility as the last day of the prior calendar month did not exceed the Operating Facility Available Amount as at the last day of such prior calendar month;
- (f) if Eligible Insured Accounts are, or are contemplated to be, included in the Operating Facility Margin Amount, as soon as available, and in any event five (5) Business Days prior to the expiry of the then current Receivables Policy, a copy of the renewal for the then current Receivables Policy or the Receivables Policy for the ensuing year; and
- (g) such additional information and documents as the Bank may reasonably request from time to time including reports, financial information or other information relating to the property and assets and the conduct of the business and affairs and financial position of each of the Companies.

ARTICLE X - SECURITY

10.01 Guarantee

The Borrower agrees to cause each of its Subsidiaries to deliver a Guarantee in respect of all present and future Obligations of the Borrower to the Bank.

10.02 Security to be Provided by the Borrower

Subject to the exceptions noted below, the Borrower agrees to provide, or cause to be provided, in favour of the Bank the security and other documents listed below which shall be held by the Bank as continuing security for the payment and performance of all present and future, direct and indirect obligations of the Borrower to the Bank, including all its Obligations arising under this Agreement and the other Loan Documents:

- (a) a general security agreement granting a security interest over all present and future property, assets and undertaking (including without limitation Intellectual Property);
- (b) security under section 427 of the *Bank Act* (Canada);
- (c) assignments of all policies of insurance in respect of the assets subject to the foregoing security, in such amounts and containing such terms and conditions as are acceptable to the Bank;
- (d) assignment of each Receivables Policy (if any), in such amounts and containing such terms and conditions as are acceptable to the Bank;
- (e) subordination agreements in respect of any debt of the Borrower which is intended to constitute Subordinated Debt of the Borrower (including without limitation the BMOCC Loan);
- (f) indemnity agreements in respect of all Letters of Credit issued by the Bank from time to time for the account of the Borrower, in the Bank's standard form;
- (g) assignment of rights under all Material Agreements;
- (h) the Borrower shall enter into the Bank's standard form of "ISDA" (this agreement is required to be entered into before the Borrower shall be permitted to enter into any FEFCs or Interest Rate Management Products under the Risk Management Facility);
- (i) environmental checklists and indemnities by the Borrower for each of its Owned Properties and Leased Properties;
- (j) a Landlord Agreement in respect of each of its Leased Properties; and
- (k) such other security from any Company or with respect to the assets of any Company as may be reasonably required by the Bank from time to time.

10.03 Guarantees and Security from Subsidiaries

The Borrower agrees to cause its Subsidiaries to provide to the Bank: (i) a Guarantee in respect of all present and future obligations of the Borrower to the Bank (each such Guarantee to be in an unlimited amount if permitted under applicable Law, otherwise such Guarantee shall be limited to the maximum amount which will not contravene applicable Law); and (ii) security of the same nature required to be provided by Borrower hereunder. Such Guarantees and security shall be provided by those Subsidiaries in existence on the date of this Agreement concurrently with the execution and delivery of this Agreement; and any Person which becomes a Subsidiary after the date of this Agreement shall provide such Guarantee and security either concurrently with becoming a Subsidiary or within ten (10) days after the date of becoming a Subsidiary, such determination to be made by the Bank in its discretion based on the facts giving rise to the creation or acquisition of such new Subsidiary.

10.04 General Provisions re: Security and Opinions

For greater certainty, "Security" includes all security agreements, Guarantees and other documents mentioned in Sections 10.01, 10.02 and 10.03, and all other documents and agreements delivered by the Companies or others to the Bank from time to time as security for the payment and performance of the obligations of the Borrower to the Bank, respectively, and the Liens constituted by the foregoing. The Security shall be in form and substance satisfactory to the Bank. The Companies shall also cause to be delivered to the Bank the opinions of the solicitors for the Companies and other Persons providing such Security (together with opinions from agents in other jurisdictions as applicable) with respect to corporate status of such Persons and their authorized and issued capital, the due authorization, execution, delivery and enforceability of the Security, and the registration of the Security and the results of all applicable searches; all such opinions to be in form and substance satisfactory to the Bank and its counsel.

10.05 Registration and Priority of Security

The Security shall be registered where necessary or desirable in the opinion of the Bank to record and perfect the security interests contained therein. The Liens constituted and created by the Security shall be first ranking/priority Liens unless the Bank specifically consents in writing to any Permitted Liens ranking in priority to the Liens granted to the Bank in connection therewith, any such consent to be made by the Bank in its discretion.

10.06 After-Acquired Property; Further Assurances

The Companies agree to execute and deliver from time to time, and to cause their respective Subsidiaries to execute and deliver from time to time, all such further documents and assurances as may be reasonably required by the Bank from time to time in order to provide the Security contemplated hereunder including as a result of the acquisition by any Company of any property or assets.

ARTICLE XI - CONDITIONS FOR ADVANCES

11.01 Conditions for First Advance (Pre-Target Acquisition)

The Bank shall have no obligation to make the first Advance under any Credit Facility until the following conditions shall have been performed and satisfied:

- (a) the representations and warranties set forth in Article VIII shall be true and correct in all material respects as at the date of the requested Advance, except as may have been consented to by the Bank in writing; and each Company shall have delivered a certificate to such effect;
- (b) the Security shall have been executed and delivered (together with legal opinions from the lawyers for the Companies as contemplated by Section 10.04) and all registrations necessary or desirable in connection therewith shall have been made and the priority of the Liens constituted by or created under the Security shall be satisfactory to the Bank in its discretion;
- (c) no event shall have occurred and be continuing which constitutes a Default or Event of Default, nor shall the making of the first Advance result in the occurrence of any such event;
- (d) the Bank shall have received favourable opinions of all applicable solicitors in form and substance satisfactory to it;
- (e) the Bank shall have received all officers' certificates and certified copies of constating documents and directors' resolutions concerning the due authorization, execution and delivery of this Agreement and the Security and such related matters as the Bank may reasonably require and confirmation of incumbency of officers and directors;
- (f) the Bank shall have received a certificate of status or similar certificates for the Companies providing Security, issued by their respective governing jurisdictions;
- (g) the Bank shall have received satisfactory evidence of the release and discharge of any Liens previously granted by the Companies providing Security, except for Permitted Liens;
- (h) if required by the Bank in its discretion, the Bank shall have received particulars of all Liens intended to remain outstanding as Permitted Liens, specifically including the assets encumbered by such security, the amounts due thereunder, and confirmation that the terms of such security are being complied with;
- (i) any approvals from any Governmental Authority or third party necessary or desirable in connection with this Agreement, the Security and the transactions contemplated therein shall have been given unconditionally and without containing any onerous terms;
- (j) the Borrower shall have complied with all covenants and all other obligations imposed upon it pursuant to this Agreement;
- (k) the Bank shall have received such additional evidence, documents or undertakings as it may reasonably require to complete the transactions contemplated hereby in accordance with the terms and conditions contained herein;
- (l) the Bank shall have received and confirmed its satisfaction with (i) the audited consolidated financial statements of the Target and KKP in respect of their respective

2008, 2009 and 2010 Fiscal Years, the unaudited consolidated financial statements of the Target and KKP in respect of their respective Fiscal Quarter ended June 30, 2011 and (ii) the pro forma balance sheet of Borrower after giving effect to the Target Acquisition and the Borrower/Target Amalgamation, together with a pro forma compliance certificate showing detailed financial covenant calculations in respect of the financial covenants set out in Section 9.03;

- (m) the initial pro-forma Senior Funded Debt to EBITDA Ratio shall not be greater than 2.01:1 immediately prior to the initial Advance hereunder;
- (n) the initial pro-forma Total Funded Debt to EBITDA Ratio shall not be greater than 3.26:1 immediately prior to the initial Advance hereunder;
- (o) the Bank shall be satisfied in its discretion that, based on the most recently completed four Fiscal Quarters of KKP, the normalized EBITDA of KKP immediately prior to the initial Advance hereunder is greater than or equal to \$3,850,000, such figure to be validated by a third party quality of earnings report satisfactory to the Bank;
- (p) the Bank shall be satisfied that since the date of the most recent financial statements of the Borrower, the Target and KKP delivered to the Bank, there shall have occurred no Material Adverse Change in the business, operations, affairs or condition, financial or otherwise of any Company (or would be deemed to have occurred if the Target and/or KKP were deemed to be a Subsidiary prior to the completion of the Target Acquisition);
- (q) the Bank shall have received insurance certificates with respect to or certified copies of all applicable insurance policies with respect to the Companies and KKP;
- (r) the Bank shall have been provided with all information reasonably requested by and in connection with the transactions contemplated by this Agreement and the operations of the Borrower, the other Companies, the Target and KKP, including but not limited to quality of earnings, property and asset values, financial statements, projected business opportunities, compliance with Applicable Law and other related matters, and the Bank shall be satisfied with its due diligence in connection with same;
- (s) receipt by the Bank of all fees and expenses owing to the Bank and the Bank's legal counsel as required by the provisions of this Agreement or any other Loan Document;
- (t) the Bank shall be satisfied in its discretion with the ownership, management, organizational and legal structure of the Borrower and its Subsidiaries, and (after the Target Acquisition), the Target and KKP;
- (u) the Bank shall be satisfied with all terms and conditions of the BMOCC Loan (which shall be in the principal amount of \$4,500,000), BMOCC shall have entered into an intercreditor agreement satisfactory to the Bank and the Bank shall be satisfied that BMOCC shall advance the proceeds of the BMOCC Loan to the Borrower concurrently with the making of the initial Advance hereunder;

- (v) the Bank shall be satisfied in its discretion with the terms of the leases for each Leased Property and the Borrower shall have obtained, or used its best efforts to obtain, a Landlord Agreement for each Leased Property;
- (w) the Bank shall be satisfied in its discretion with the terms and conditions of all Intellectual Property owned by the Companies, the Target and KKP and the terms and conditions of all Material Agreements of the Companies, the Target and KKP;
- (x) the Bank shall have been provided with all information reasonably requested in connection with the Target Acquisition (without limitation, the Bank shall be satisfied that the Borrower shall, on completion of the Target Acquisition, acquire title to all of the capital stock of the Target and indirectly KKP not currently owned by the Borrower, free and clear of all Liens and that the property and assets of each of the Target and KKP are and shall be free and clear of all Liens except for Permitted Liens) including due diligence relating to the operations of the Target and KKP, compliance by the Target and KKP with Applicable Law (including Environmental Law) and confirmation that all pension and employee benefit and arrangements (if any) of the Target and KKP are adequately established and funded;
- (y) until all conditions precedent contained in Section 11.02 below shall have been met to the satisfaction of the Bank, the Borrower shall only be entitled to obtain an availment of credit under the Operating Facility up to the maximum aggregate amount of \$700,000;
- (z) the Bank shall be satisfied in its discretion with all agreements and matters relating to the Target Acquisition, including the Target Purchase Agreement and all ancillary documents to be delivered in connection therewith;
- (aa) if the purchase price of the Target Acquisition payable to Vendor is greater than \$21,000,000, the Bank shall be satisfied in its discretion that any amount over \$21,000,000, shall be obtained by the Borrower by way of equity or Subordinated Debt;
- (bb) the Bank shall be satisfied with all equity injections (in an amount of at least \$9,500,000, with no more than \$1,000,000 of such amount to be in the form of a share rollover), Subordinated Debt or other monies to be received, directly or indirectly by the Borrower to permit it to fund the Target Acquisition;
- (cc) the Target Acquisition shall be completed concurrently with the initial Advance hereunder to the satisfaction of the Bank;
- (dd) the Borrower shall have delivered to the Bank a Drawdown Notice in accordance with the notice requirements provided herein;
- (ee) the Bank shall have received a pro-forma borrowing base certificate from the Borrower confirming a minimum margin surplus of \$1,500,000 at such time;
- (ff) the Bank shall have received and confirmed its satisfaction with (i) the most current (last 3 months) aged accounts receivable, accounts payable and inventory listings for KKP,

and (ii) pro-forma financial projections of the Borrower for the next three years (monthly for year 1 and quarterly for years 2 and 3);

- (gg) the Bank shall have received all necessary environmental compliance and disclosure indemnities;
- (hh) the Bank shall have received a satisfactory payout letter in respect of any existing debt (other than debt permitted by Section 9.02(a)) and a release document confirming that all security in respect of such debt shall be released effective immediately upon repayment thereof;
- (ii) the Bank shall have received all documentation and other information required by bank regulatory authorities under applicable "know-your-customer" and anti-money laundering rules and regulations;
- (jj) such Advance will not violate any order judgment or decree of any court or other Governmental Authority or any provision of Applicable Law relating to or affecting the Bank; and
- (kk) the Bank shall have received such other documents and information as the Bank may reasonably request.

11.02 Conditions for Subsequent Advances After Completion of the Target Acquisition

Following the making of the first Advance under the Credit Facilities, the Bank shall have no obligation to make any subsequent Advances to the Borrower or to permit a Conversion or a Rollover unless at the time of making each such further Advance or the making of such Conversion or Rollover, the following terms and conditions shall have been satisfied (the initial Advance, Conversion or Rollover by the Bank to the Borrower after the initial Advance hereunder being called the "Initial Post-Target Acquisition Advance"):

- (a) the Target Acquisition shall have been completed to the satisfaction of the Bank;
- (b) the Borrower shall have delivered or caused to be delivered to the Bank a Guarantee and Security by each of the Target and KKP and officer's certificates, certificates of status, resolutions, insurance certificates and such other documents as are required by the Bank (as contemplated to be delivered to the Bank by the Borrower and its Subsidiaries in accordance with Section 11.01 above);
- (c) the Borrower/Target Amalgamation shall have been completed;
- (d) the Amalgamated Borrower shall have delivered to the Bank the Security, officer's certificates, resolutions, certificates of status, insurance certificates and such other documents as required by the Bank (and as contemplated to be delivered by the Borrower and its Subsidiaries in accordance with Section 11.01 above);
- (e) the representations and warranties made in Article IX shall be true and correct in all material respects, as if made on the date of such Advance (i.e. to the extent a representation and warranty is stated in Article IX to be made "as of the date of this

Agreement"; such representation and warranty shall be made and deemed to be made on the date of the subsequent Advance without regard to the phrase "as of the date of this Agreement");

- (f) no event shall have occurred and be continuing which constitutes a Default or Event of Default, nor shall the making of the Advance result in the occurrence of any such event;
- (g) the Borrower shall have given a Drawdown Notice, Rollover Notice or Conversion Notice to the Bank in accordance with the notice requirements provided herein;
- (h) the Borrower shall have complied with all other obligations imposed upon them pursuant to this Agreement;
- (i) the Bank shall be satisfied in its discretion that no event has occurred and is continuing which has caused a Material Adverse Change;
- (j) all conditions precedent contained in Section 11.01 above shall have been met to the satisfaction of the Bank;
- (k) the Bank shall not have demanded repayment hereunder;
- (l) the Bank shall not have received any order or demand in respect of the Borrower under Section 224.1(1) of the *Income Tax Act* (Canada) or any similar provincial Applicable Law; and
- (m) the Bank shall have received such other documents and information as the Bank may reasonably request.

11.03 Conditions for Subsequent Advances, Conversions and Rollovers (After the Initial Post-Target Acquisition Advance)

Following the making of the Initial Post-Target Acquisition Advance under the Credit Facilities, the Bank shall have no obligation to make any subsequent Advances to the Borrower or to permit a Conversion or a Rollover unless at the time of making of such further Advance or the making of such Conversion or Rollover, the following terms and conditions shall have been satisfied:

- (a) the representations and warranties made in Article IX shall be true and correct in all material respects, as if made on the date of such Advance (i.e. to the extent a representation and warranty is stated in Article IX to be made "as of the date of this Agreement"; such representation and warranty shall be made and deemed to be made on the date of the subsequent Advance without regard to the phrase "as of the date of this Agreement");
- (b) no event shall have occurred and be continuing which constitutes a Default or Event of Default, nor shall the making of the Advance result in the occurrence of any such event;
- (c) the Borrower shall have given a Drawdown Notice, Rollover Notice or Conversion Notice to the Bank in accordance with the notice requirements provided herein;

- (d) the Borrower shall have complied with all other obligations imposed upon it pursuant to this Agreement;
- (e) the Bank shall be satisfied in its discretion that no event has occurred and is continuing which has caused a Material Adverse Change;
- (f) all conditions precedent contained in Sections 11.01 and 11.02 above shall have been met to the satisfaction of the Bank;
- (g) the Bank shall not have demanded repayment hereunder;
- (h) the Bank shall not have received any order or demand in respect of the Borrower under Section 224.1(1) of the *Income Tax Act* (Canada) or any similar provincial Applicable Law; and
- (i) the Bank shall have received such other documents and information as the Bank may reasonably request.

11.04 Conditions for Advances, Conversions and Rollovers under the Capex Facility

The Bank shall have no obligation to make any Advance to the Borrower under the Capex Facility or to permit a Conversion or a Rollover under the Capex Facility unless at the time of making of such Advance or the making of such Conversion or Rollover, the following terms and conditions shall have been satisfied:

- (a) all conditions precedent contained in Sections 11.01, 11.02 and 11.03 above shall have been met to the satisfaction of the Bank;
- (b) receipt of an invoice satisfactory to the Bank in its sole discretion in respect of the Eligible Capital Equipment to be financed by such Advance;
- (c) in connection with any Eligible Capital Equipment which in the opinion of the Bank could be considered a fixture, a fixture filing in form and substance satisfactory to the Bank shall have been executed and delivered and all registrations necessary or desirable in connection therewith shall have been made and the priority of the Liens constituted thereby or created thereunder shall be satisfactory to the Bank in its discretion; and
- (d) the Bank shall have received such other documents and information as the Bank may reasonably request.

11.05 Conditions Precedent - General Matters

The Bank shall have no obligation to extend any Advance or permit any Conversion or Rollover hereunder at any time unless all conditions precedent have been satisfied before or at such time. The conditions precedent are included for the exclusive benefit of the Bank and may be waived in writing in whole or in part by the Bank at any time. In the event that the Bank makes available any Advance or permits a Conversion or Rollover notwithstanding that any one or more of the conditions precedent thereto have not been satisfied in whole or in part, such waiver shall not operate so as to waive the

Bank's right to require strict compliance thereafter with each provision hereof in connection with any subsequent Advance, Conversion or Rollover.

ARTICLE XII - DEFAULT AND REMEDIES

12.01 Events of Default

The occurrence of any one or more of the following events, after the expiry of any applicable cure period set out below, shall constitute an event of default (an "**Event of Default**") under this Agreement:

- (a) the Borrower fails to pay any principal, interest, fees or other amounts owing to the Bank hereunder or pursuant to the other Loan Documents and, in the case of interest, fees or other amounts owing to the Bank, if such payment is not made within three (3) Business Days of the day on which such payment is due;
- (b) the Borrower fails to perform or comply with any covenant or obligation contained in Sections 9.01 (b), (d), (e), (o), (p), (r), (u) and (v), Section 9.02 and Section 9.03;
- (c) any Company fails to perform or comply with any covenants or obligations contained in this Agreement or in any other Loan Document other than referred to in Section 12.01(a) or Section 12.01(b) above and provided that such default is capable of being remedied, such default shall continue unremedied for fifteen (15) days from the earlier to occur of (i) the Bank providing notice to the Borrower or such other Company, as the case may be, of such default or (ii) the Borrower or such other Company, as the case may be, becoming aware of such default;
- (d) any Company fails to perform or comply in all material respects with any Requirement of Environmental Law unless such Company is indemnified under the Target Purchase Agreement for such failure;
- (e) any representation or warranty contained in this Agreement or any other Loan Document between the Company and the Bank is or becomes false or incorrect in any material respect;
- (f) (i) if any present or future indebtedness, liability or obligation of any Company or any Affiliate of the Borrower having a principal amount in excess of \$250,000 (or the Equivalent Amount thereof in U.S. Dollars) in the aggregate (A) becomes due and payable prior to its date of maturity by reason of occurrence of a default thereunder or (B) is not paid when demanded or due or within any applicable grace period originally provided therefor or within a reasonable period of time for demand loan repayments (as may be applicable), or (ii) if a default occurs under any loan document or Lien entered into or granted by any Company or Companies or any Affiliate of the Borrower in respect of which an amount in excess of \$250,000 or the Equivalent Amount thereof in U.S. Dollars in the aggregate is owing or secured thereunder and such default (after any applicable cure period) entitles the applicable lender or encumbrancer to accelerate payment of such debt or enforce its Lien;

- (g) (i) if the BMOCC Loan (A) becomes due and payable prior to its date of maturity by reason of occurrence of a default thereunder or (B) is not paid when demanded or due or within any applicable grace period originally provided therefor, (ii) if BMOCC issues a Standstill Notice (as defined in the intercreditor agreement dated as of the date hereof between the Bank, BMOCC and the Borrower) to the Bank, (iii) if a default occurs under any loan document or Lien entered into or granted by the Borrower or any other Company in respect of the BMOCC Loan and such default (after any applicable cure period) entitles BMOCC to accelerate payment of such debt or enforce its Lien;
- (h) any Company ceases to carry on its business; sells all or substantially all of its assets; commits an act of bankruptcy; becomes insolvent (as such term is defined pursuant to Insolvency Legislation; makes an assignment for the benefit of creditors, files a petition in bankruptcy or makes a proposal under Insolvency Legislation; admits the material allegations of any petition filed against it in any proceeding under Insolvency Legislation; commits an act of bankruptcy within the meaning of Insolvency Legislation; petitions or applies to any tribunal or court for the appointment of any receiver, trustee or similar liquidator of it or all or a substantial part of its assets; commences a proceeding pursuant to Insolvency Legislation; is wound-up, dissolved or liquidated or has its existence terminated unless in conjunction with a bona fide corporate reorganization not prohibited hereby in which a successor of the person will succeed to its obligations and enter into an agreement with the Bank to that effect or takes any action for the purpose of effecting any of the foregoing;
- (i) any petition shall be filed or other proceeding commenced in respect of any Company or any Affiliate of the Borrower or any portion of its property under any Insolvency Legislation; including a proceeding requesting an order approving a reorganization of any Company or any Affiliate of the Borrower, declaring any Company or any Affiliate of the Borrower bankrupt, or appointing a receiver, trustee or liquidator of any Company or any Affiliate of the Borrower or of all or a substantial part of its assets, and (i) such Company or such Affiliate shall not in good faith be actively and diligently contesting and defending such proceeding in good faith and on reasonable grounds (provided further that in the opinion of the Bank acting reasonably, the existence of such proceeding does not materially adversely affect the ability of such Company or such Affiliate to carry on its business and to perform and satisfy its obligations under the Loan Documents) or (ii) such petition or proceeding shall not be abandoned, dismissed or permanently stayed within a period of ten (10) Business Days from the date of filing or commencement thereof;
- (j) a judgment or judgments for the payment of money in excess of \$250,000 or the Equivalent Amount thereof in U.S. Dollars in the aggregate (net of any amounts available for the satisfaction of such judgment pursuant to any enforceable contract of insurance) is obtained or entered against any Company or Companies or any Affiliate of the Borrower and remains unpaid for 60 days (provided that such judgment or judgments will constitute an "Event of Default" prior to the expiry of such 60 day period if such judgment or judgments are not being diligently appealed by such Company in good faith and on reasonable grounds);

- (k) any Person takes possession of any material property of any Company by way of or in contemplation of enforcement of security, or a distress, execution, garnishment or similar process is levied or enforced against any Company or any such property;
- (l) any Governmental Authority takes any action with respect to any Company or any material portion of its property, including any condemnation, seizure or expropriation of any property of any Company, which materially and adversely affects such Company or its financial condition, business or operations; and without limiting the generality of the foregoing, an item or items of property having a value in excess of \$250,000 or the Canadian Dollar Equivalent Amount thereof in the aggregate shall be deemed to be material;
- (m) if this Agreement or any of the other Loan Documents ceases to be enforceable in accordance with its terms or any Company terminates or purports to terminate its liability under any Loan Document or disputes the validity or enforceability of any such Loan Document;
- (n) if any Governmental Authority shall take any action to condemn, seize or appropriate any property of any Company that is material to its financial condition or operations;
- (o) if any of the Security ceases to constitute a valid first priority Lien (except to the extent that the Bank has consented in writing to any Liens ranking in priority to the Security);
- (p) if any Company which is presently a Subsidiary of the Borrower ceases to be a Subsidiary of the Borrower (for greater certainty, other than in respect of the Target and KKP as and when they each become the Amalgamated Borrower hereunder as a result of the Borrower/Target Amalgamation);
- (q) if any report of the auditors of the Borrower contains any qualification which could reasonably be expected to adversely effect the creditworthiness of any Company or its ability to perform its obligations under the Loan Documents to which it is a party;
- (r) if any Change of Control occurs; or
- (s) if any event occurs relating to any Company, which in the opinion of the Bank, constitutes or could reasonably be expected to cause a Material Adverse Change.

12.02 Acceleration upon Event of Default; Additional Interest

Upon the occurrence of an Insolvency Default, all obligations of the Borrower to the Bank shall become immediately due and payable, without the necessity of any demand upon or notice to the Borrower by the Bank, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. Upon the occurrence and during the continuance of any other Event of Default, the Bank may by written notice delivered to the Borrower declare all obligations of the Borrower to the Bank to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. Without limiting the generality of the foregoing, the Bank shall also be entitled, concurrently with the making of any demand for payment hereunder, to realize upon and enforce any and all of the Security and other Loan Documents and proceed by any other action, remedy or proceeding authorized or permitted by this

Agreement, such other Loan Documents or at law or in equity. The rights and remedies of the Bank hereunder and under the other Loan Documents are cumulative and in addition to and not in substitution for any rights or remedies provided at law. Upon the occurrence and during the continuance of an Event of Default, the Bank shall have the right to perform any of the covenants of the Companies which have not been performed, in which case the Borrower agrees to indemnify and hold harmless the Bank from and against any and all reasonable costs and expenses incurred by the Bank in connection therewith provided that the Bank shall have no obligation whatsoever to perform such covenants and the performance of any such covenants by the Bank shall not in any way prejudice any of the Bank's other rights and remedies. The Bank, upon and during the continuance of an Event of Default, shall not be obligated to make any further Advances to the Borrower (for greater certainty, including honouring any cheque drawn by the Borrower which is presented for payment) or make any Conversions or Rollovers from and after the earlier to occur of (a) delivery by the Bank to the Borrower of written notice that a Default or Event of Default has occurred and is continuing and as a result thereof, no further Advances will be made (whether or not such notice also requires immediate repayment of the Obligations), (b) the occurrence of an Insolvency Event and (c) receipt by the Bank of any garnishment notice, notice of Statutory Lien or other notice of similar effect in respect of any Company pursuant to any Applicable Law, while any such notice remains in effect.

12.03 Acceleration of Certain Contingent Obligations

Upon the occurrence and during the continuation of an Event of Default, the Borrower shall pay to the Bank on demand or the Bank may make a Prime Rate Loan or U.S. Base Rate Loan, as applicable, to the Borrower, in each case in an amount equal to the face amount of any Advance to the Borrower in the form of a Bankers' Acceptance, LIBOR Loan or Letter of Credit and such additional amounts which may become owing by the Borrower in connection therewith; and any such payments received from the Borrower and/or the proceeds of any such Loan shall be held by the Bank and used to satisfy the obligations thereunder as same become due. Any such Prime Rate Loan shall bear interest at the highest rate applicable to Prime Rate Loans under this Agreement; and any such U.S. Base Rate Loan shall bear interest at the highest rate applicable to U.S. Base Rate Loans under this Agreement.

12.04 Combining Accounts; Set-Off

On or at any time after the Acceleration Date, in addition to and not in limitation of any rights now or hereafter granted under applicable law, the Bank may take the following actions in respect of the Borrower from time to time, without notice to the Borrower:

- (a) the Bank may combine, consolidate or merge any or all of the deposits or other accounts maintained with the Bank by the Borrower (whether term, notice, demand or otherwise and whether matured or unmatured) and the Borrower's Obligations to the Bank hereunder; and
- (b) the Bank may set off, apply or transfer any or all sums standing to the credit of the Borrower in any such deposits or accounts in or towards the satisfaction of the Borrower's said Obligations to the Bank.

12.05 Appropriation of Monies

On or at any time after the Acceleration Date, the Bank may from time to time appropriate any proceeds of realization of the Security given by or in respect of the Borrower against such portion of the

obligations due to the Bank by the Borrower in the Bank's discretion, and the Borrower may not require any different appropriation. The taking of a judgment or any other action or dealing whatsoever by the Bank in respect of the Security shall not operate as a merger of any of the Borrower's obligations hereunder or in any way affect or prejudice the rights, remedies and powers which the Bank may have; and the surrender, cancellation or any other dealing with any Security or the said obligations shall not release or affect the liability of the Borrower or any other Person in respect of the remaining portion of the said obligations.

12.06 Judgment Currency

If for the purposes of obtaining judgment in any court in any jurisdiction with respect to this Agreement it becomes necessary for the Bank to convert into the currency of such jurisdiction (in this section called the "**Judgment Currency**") any amount due to the Bank by the Borrower hereunder in any currency other than the Judgment Currency, the conversion shall be made at the Exchange Rate prevailing on the Business Day before the day on which judgment is given. In the event that there is a change in the Exchange Rate prevailing between the Business Day before the day on which the judgment is given and the actual date of payment of the amount due, the Borrower will, on the date of payment, pay such additional amounts (if any) or be entitled to receive reimbursement of such amount, if any, as may be necessary to ensure that the amount paid on such date is the amount in the Judgment Currency which when converted at the Exchange Rate prevailing on the date of payment is the amount then due under this Agreement in such other currency. Any additional amount due by the Borrower under this section will be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of this Agreement.

12.07 Insolvency Proceedings

If any Company intends to take the benefit of any Insolvency Legislation, including making an assignment for the general benefit of creditors, making a proposal or filing a notice of intention to make a proposal under any Insolvency Legislation, the Borrower covenants and agrees to provide the Bank with five (5) Business Days' prior written notice before any of the aforementioned proceedings are commenced. As soon as possible prior to the commencement of any such proceedings, the Borrower shall provide to the Bank copies of all relevant filing materials, including copies of draft court orders, plans of compromise, proposals and notices of intention. During this notice period the Bank may, in its sole discretion, elect to exercise any and all rights and remedies which may be available to it at that time as set out in this Agreement.

12.08 Remedies Cumulative

All of the rights and remedies granted to the Bank in this Agreement and any other documents or instruments in existence between the parties or contemplated hereby, and any other rights and remedies available to the Bank at law or in equity, shall be cumulative. The exercise or failure to exercise any of the said remedies shall not constitute a waiver or release thereof or of any other right or remedy, and shall be non-exclusive.

12.09 Risk Management Obligations

Upon the occurrence and during the continuance of an Event of Default, the Borrower shall pay to the Bank or any of the Bank's Affiliates on demand an amount equal to the Deemed Risk of the Borrower's Risk Management Obligations, to be held by the Bank or any of the Bank's Affiliates as

collateral security and to secure payment of the amounts to become owing by the Borrower under the FEFCs or Interest Rate Management Products entered into by the Borrower. In the event that the Borrower does not pay to the Bank or any of the Bank's Affiliates any amounts demanded in accordance with this Section 12.09, then in such case, the Borrower irrevocably authorizes and directs the Bank to make a Prime Rate Loan or U.S. Base Rate Loan, as applicable, to the Borrower in an amount equal to the Deemed Risk of the Borrower's Risk Management Obligations, and any such Prime Rate Loan shall bear interest at the highest rate applicable to Prime Rate Loans under this Agreement, and any such U.S. Base Rate Loans shall bear interest at the highest rate applicable to U.S. Base Rate Loans under this Agreement.

ARTICLE XIII - GENERAL

13.01 Waiver

Any failure or delay by the Bank in exercising any right or privilege with respect to the non-compliance with any provisions of this Agreement by the Borrower or of any other Loan Document by any other Company and any course of action on the part of the Bank, shall not operate as a waiver of any rights of the Bank unless made in writing by the Bank. Any such waiver shall be effective only in the specific instance and for the purpose for which it is given and shall not constitute a waiver of any other rights and remedies of the Bank with respect to any other or future non-compliance.

13.02 Governing Law; Waiver of Jury Trial

This Agreement shall be governed, construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Without prejudice to the right of the Bank to commence any proceedings with respect to this Agreement in any other proper jurisdiction, the Borrower hereby attorns and submits to the non-exclusive jurisdiction of the courts of the Province of Ontario, provided that the Bank shall be entitled to commence actions in the courts of any other jurisdiction in its discretion for the purpose of enforcing the provision of any of the Loan Documents. THE BORROWER AND THE BANK HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY OTHER DOCUMENT CONTEMPLATED HEREIN.

13.03 Bank's Expenses

Whether or not the transactions contemplated by this Agreement are completed or Advances are made, the Borrower agrees to pay on demand by or on behalf of the Bank all reasonable costs and expenses incurred by the Bank, including reasonable legal expenses on a solicitor and his own client basis, in connection with this Agreement and the other Loan Documents, including: the preparation, administration or interpretation of such documents, the protection and enforcement of the rights of the Bank provided for thereby, the enforcement of the Loan Documents and the preparation of any amendments (other than amendments as a result of an assignment of this Agreement by the Bank or other similar actions caused solely by the Bank), waivers, partial discharges and similar matters which may be required; together with interest after demand at the highest rate then applicable to the Credit Facilities. If such expenses are not paid in full within 30 days after the sending of a written request from the Bank, the Borrower hereby authorizes the Bank to debit its account in order to pay any such expenses.

13.04 General Indemnity

In addition to any other liability of the Borrower hereunder the Borrower agrees to indemnify and save harmless the Bank and its officers, directors, employees and agents (specifically including a receiver or receiver manager) and all of their respective successors, legal administrators and assigns (collectively, the "**Bank Indemnitees**") from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Bank Indemnitees which relate or arise out of or result from any failure by the Borrower to satisfy its obligations to the Bank when due or fulfil any of its other obligations to the Bank hereunder including, without limitation, any reasonable costs or expenses incurred by reason of the liquidation or re-employment in whole or in part of deposits or other funds required by the Bank to fund or maintain the Credit Facilities or as a result of the Borrower's failure to take any action on the date required hereunder or specified by it in any notice given hereunder; except to the extent caused by the gross negligence or wilful misconduct of the Bank or its agents. The Bank shall hold for the benefit of this indemnity in trust for the Bank Indemnitees and this indemnity shall survive the termination of this Agreement.

13.05 Environmental Indemnity

In addition to any other liability of the Borrower hereunder, the Borrower agrees to indemnify and save harmless the Bank and the other Bank Indemnitees from and against:

- (a) any losses suffered by them for, in connection with, or as a direct or indirect result of, the failure of the Borrower or any other Company to comply with all Requirements of Environmental Law;
- (b) any losses suffered by the Bank Indemnitees for, in connection with, or as a direct or indirect result of, the presence of any Hazardous Material situated in, on or under any property owned by the Borrower or any other Company or upon which it carries on business; and
- (c) any and all liabilities, losses, damages, penalties, expenses (including reasonable legal fees on a solicitor and his own client basis) and claims which may be paid, incurred or asserted against the Bank Indemnitees for, in connection with, or as a direct or indirect result of, any legal or administrative proceedings with respect to the presence of any Hazardous Material on or under any property owned by the Borrower or upon which it carries on business, or the discharge, emission, spill, radiation or disposal by any of them of any Hazardous Material into or upon any land, the atmosphere, or any watercourse or body of water; including, without limitation the costs of defending and/or counterclaiming or claiming over against third parties in respect of any action or matter and any cost, liability or damage arising out of a settlement entered into by the Indemnitees of any such action or matter;

except to the extent that any of the foregoing liabilities, losses, damages, penalties and expenses were caused by the gross negligence or wilful misconduct of the Bank or its agents. The Bank shall hold the benefit of this indemnity in trust for the Bank Indemnitees and this indemnitee shall survive the termination of this Agreement.

13.06 Interest on Unpaid Costs and Expenses

If the Borrower fails to pay when due any amount in respect of costs or expenses or any other amount required to be paid by it hereunder (other than principal or interest on Advances), it shall pay interest on such unpaid amount from the time such amount is due until paid at the rate equal to the highest rate of interest then applicable to the Credit Facilities established for the Borrower.

13.07 Notice

Without prejudice to any other method of giving notice, all communications provided for or permitted hereunder shall be in writing and delivered to the addressee by prepaid private courier or sent by telecopy or other direct written electronic means (provided that a written record is kept in respect of any such electronic communication), to the applicable address and to the attention of the officer of the addressee as follows:

- (a) to the Borrower, to it at:

c/o River Associates Investments, LLC
1640 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450
Attention: W. Craig Baker

Facsimile: 423.755.0870
Email: cbaker@riverassociatesllc.com

with a copy to:

Miller & Martin PLLC
1000 Volunteer Building
832 Georgia Avenue
Chattanooga, Tennessee 37402

Attention: Jonathan F. Kent
Facsimile: 423.785.8480
Email: jkent@millermartin.com

- (b) to the Bank, to it at:

Bank of Montreal
Corporate Finance
11th Floor, 1 First Canadian Place
Toronto, Ontario
M5X 1A1

Attention: Director (re: KK Precision Inc.)
Fax No. (416) 864-6534

Any notice or other communication made by personal delivery, telecopy or other direct written electronic means on a Business Day shall be deemed to have been given, received and made on such Business Day so long as it is actually received prior to 4:00 p.m. (Toronto time) on such Business Day, and otherwise shall be deemed to have been made on the next following Business Day (any such notice given, received or made on a day which is not a Business Day shall be deemed to have been made on the next following Business Day).

13.08 Time of the Essence

Time shall be of the essence of this Agreement.

13.09 Entire Agreement

This Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto relating to the subject-matter hereof. No provision of this Agreement or any other Loan Document may be modified, waived or terminated except by an instrument in writing executed by the party against whom such modification, waiver or termination is sought to be enforced. This Agreement supercedes and replaces in its entirety any and all term sheets issued by the Bank and accepted by the Borrower.

13.10 Paramountcy

To the extent there exists any inconsistency between any provision of this Agreement and any provision contained in any document comprising part of the Security, the provision in this Agreement shall govern to the extent of such conflict or inconsistency. For greater certainty, a provision in one Loan Document and a provision in another Loan Document shall not be considered to be inconsistent if both relate to the same subject matter and the provision in one Loan Document imposes more onerous obligations or restrictions than the corresponding provision in the other Loan Document. Furthermore, a conflict or inconsistency shall not occur or be deemed to have occurred if this Agreement or a Loan Document provides for a matter that the other does not.

13.11 Further Assurances

The Borrower shall, and shall cause each of its Subsidiaries to, at its expense, promptly execute and deliver to the Bank, or cause to be executed and delivered to the Bank, on request by the Bank from time to time, all such other and further documents, agreements, Security, opinions, certificates and instruments as may be reasonably requested by the Bank to more fully confirm and implement the intent and purpose of this Agreement and the other Loan Documents, or if necessary or desirable to more fully record or evidence the obligations intended to be entered into herein, or to make any recording, file any notice or obtain any consent. All documents, certificates, legal opinions and other agreements (including without limitation the Loan Documents) required to be delivered to the Bank hereunder shall be in form and substance satisfactory to the Bank acting reasonably. The Borrower shall ensure that all financial analyses and statements delivered to the Bank in connection with or as required by this Agreement are prepared in good faith based on assumptions believed by the Borrower to be reasonable.

13.12 Successors and Assigns

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. The Borrower shall not, without the Bank's prior written consent (which may be arbitrarily withheld by the Bank), assign any interest under this Agreement or any of the other Loan Documents to any other Person. The Bank shall be entitled to assign or participate any or all of the Obligations and any interest under the Loan Documents and the Borrower shall execute and deliver and cause each of its Subsidiaries to execute and deliver any documents as may be reasonably required in connection therewith. Notwithstanding any sale by the Bank of a participating interest (as opposed to an assignment of any or all of the Obligations and any interest under the Loan Documents), the Bank's rights and obligations under this Agreement shall remain unchanged, the Bank shall remain solely responsible for the performance thereof, and the Borrower shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations hereunder as if such participation had never taken place. The Bank shall be entitled to participate any interest hereunder without the Borrower's prior consent. Prior to the occurrence and the continuance of an Event of Default, no assignment shall be made by the Bank without the prior written consent of the Borrower, such consent not to be unreasonably withheld or delayed unless such assignment shall be in an amount not less than \$5,000,000 and the Bank shall continue to hold a minimum of \$5,000,000 of the Obligations. For greater certainty, after the occurrence and during the continuance of an Event of Default, the Bank shall be entitled to assign any or all of the Obligations (and any and all of the Security and other Loan Documents or any interest therein) without notice to, or the consent of, the Borrower, regardless of whether such assignment would result in increased costs (including without limitation withholding tax obligations) for the Borrower and without regard to the restrictions referred to in the immediately preceding sentence. In the event that an assignment is made by the Bank to a Person not incorporated under the *Bank Act* (Canada), the Borrower will have no right or ability to obtain Advances from such assignee by way of Bankers' Acceptances. The Borrower authorizes the Bank to disclose to any proposed participant or assign any and all financial and other information in the Bank's possession concerning the Borrower and the other Companies which has been delivered to the Bank pursuant to this Agreement, or which has been delivered to the Bank by the Borrower in connection with the Bank's credit evaluation of the Borrower, provided that such proposed participant or assign delivers an agreement to maintain such information in confidence.

13.13 Borrower's Obligation of Confidentiality

The Borrower confirms and agrees with the Bank that the terms and conditions of the Loan Documents are confidential and proprietary to the Bank, and that the Bank could incur or sustain losses or damages if any of such confidential information or the substance thereof were disclosed to any Person or to the public or placed on any public file. Accordingly, the Borrower covenants and agrees to and in favour of the Bank that the Borrower shall not, nor shall it permit any of its employees, officers, directors, Subsidiaries, other Affiliates, agents or advisors, to disclose directly or indirectly any of such confidential information to any Person except (i) to officers, directors, Subsidiaries, employees, accountants, lawyers and other professional advisors of the Borrower and subject to the same confidentiality restrictions in favour of the Bank, (ii) as may be necessary in connection with the repayment or refinancing of the Credit Facilities, the sale of substantially all of the assets or ownership interests of the Companies or a reorganization, recapitalization or merger of the Companies and (iii) as may be compelled in a judicial or administrative proceeding by a Governmental Authority or any Applicable Law.

13.14 Information Sharing

The Borrower agrees that the Bank may disclose any information regarding the Companies to Affiliates of the Bank or any other member of the BMO Financial Group to assist the Bank in supporting the Borrower with its strategic plans.

13.15 Tombstone Marketing

For the purpose of "tombstone marketing", the Borrower authorizes and consents to the reproduction, disclosure and use by the Bank of the Borrower's name, identifying logo and, the transactions contemplated by this Agreement and the Credit Facilities to enable the Bank to publish promotional "tombstones". The Borrower acknowledges and agrees that the Bank shall be entitled to determine, in its discretion, whether or not to use such information and that no compensation will be payable by the Bank in connection therewith and that the Bank shall have no liability whatsoever to the Borrower or any of their respective employees, officers, directors, affiliates or shareholders for obtaining or using such information as contemplated herein.

13.16 Written and Oral Authority

The Bank shall be entitled to act upon the written and oral instructions of any individual identified in writing by the Borrower from time to time by notice or other document given to the Bank as a person authorized by the Borrower to give instructions regarding the making of accommodations by the Bank to the Borrower, and the Bank shall not be responsible for any error or omission in such instructions or any performance thereof, except in the event of wilful misconduct.

13.17 Execution by Fax and Counterparts

This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts together shall constitute one and the same Agreement. This Agreement may be executed by facsimile or electronic mail in pdf format and any signature contained hereon by facsimile or electronic mail in pdf format shall be deemed to be equivalent to an original signature for all purposes.

13.18 Binding Effect

This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns; "successors" includes any corporation resulting from the amalgamation of any party with any other corporation.

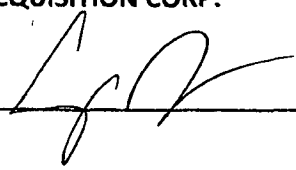
13.19 Borrower/Target Amalgamation

Immediately upon the completion of the Borrower/Target Amalgamation, the "Borrower" under this Agreement and each of the other Loan Documents shall immediately and without any further action required whatsoever be and be deemed to be the Amalgamated Borrower. The Amalgamated Borrower shall be subject to and bound by the provisions of the Loan Documents (including without limitation this Agreement and the Security) previously entered into or delivered by the Borrower, the Target and/or KKP in favour of the Bank.

[signature page to follow]

IN WITNESS WHEREOF this Agreement has been executed, sealed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KKP ACQUISITION CORP.

By:  _____

Name:

Title:

By: _____

Name:

Title:

BANK OF MONTREAL

By: _____

Name:

Title:

IN WITNESS WHEREOF this Agreement has been executed, sealed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KKP ACQUISITION CORP.

By: _____

Name:

Title:

By: _____

Name:

Title:

BANK OF MONTREAL

By:  _____

Name: *Edwin Gauthier*

Title: *MANAGING DIRECTOR*

EXHIBIT "A"
DRAWDOWN NOTICE

TO: BANK OF MONTREAL (the "Bank")

RE: Credit Agreement dated September 1, 2011 between the Bank, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**")

- (a) This request for an Advance is delivered to you pursuant to the Credit Agreement. All capitalized terms set forth in this Drawdown Notice and not otherwise defined herein have the respective meanings specified in the Credit Agreement.
- (b) The Borrower certifies that as at the date hereof all representations and warranties contained in the Credit Agreement are true and correct in all material respects with the same effect as if such representations and warranties are made on and as of the date of this Drawdown Notice.
- (c) The Borrower certifies that, as at the date hereof, no Default or Event of Default has occurred and is continuing and the Borrower covenants that no Default or Event of Default will have occurred and be continuing on the drawdown date or will result from the granting or making of any accommodation requested pursuant to this Drawdown Notice.
- (d) The Borrower certifies that all other conditions precedent provided for in the Credit Agreement to the granting or making of the accommodation requested herein have been satisfied and that the making of the accommodation requested will not result in any contravention of the Credit Agreement.
- (e) The Borrower hereby gives you notice that on _____, it wishes to obtain the following accommodation under the [**Operating/Term/Capex**] Facility:

Prime Rate Loan

Principal Amount: \$;

U.S. Base Rate Loan

Principal Amount: \$;

LIBOR Loan

Aggregate Principal Amount: \$;
Term: days

Bankers' Acceptance

Face Amount: \$;
Term: days

Letter of Credit

Face Amount: \$;

Currency:

Beneficiary:

Dated this ____ day of _____.

<>

By: _____

Name:

Title:

EXHIBIT "B"
ROLLOVER NOTICE

TO: BANK OF MONTREAL (the "Bank")

RE: Credit Agreement dated September 1, 2011 between the Bank, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**")

- (a) This Rollover Notice is delivered to you pursuant the Credit Agreement. All capitalized terms set forth in this Rollover Notice and not otherwise defined herein shall have respective meanings ascribed thereto in the Credit Agreement.
- (b) The Borrower certifies that as at the date hereof, all representations and warranties contained in the Credit Agreement are true and correct in all material respects with the same effect as if such representations and warranties are made on and as of the date of this Rollover Notice.
- (c) The Borrower certifies that as at the date hereof no Default or Event of Default has occurred and the Borrower covenants that no Default or Event of Default will have occurred and be continuing on the date of the Rollover or will result from the Rollover contemplated herein.
- (d) The Borrower certifies that all other conditions precedent provided for in the Credit Agreement to the Rollover contemplated herein have been satisfied, and that the making of such requested Rollover will not result in any contravention of the Credit Agreement.
- (e) The Borrower hereby gives you notice that on _____, it wishes to undertake a Rollover of the following accommodation outstanding under the [Operating/Term/Capex] Facility:

(*)

into the following Accommodations:

Prime Rate Loan

Principal Amount: \$;

U.S. Base Rate Loan

Principal Amount: \$;

LIBOR Loan

Aggregate Principal Amount:\$;
Term: days

Bankers' Acceptance

Face Amount: \$;
Term: days

Dated this ____ day of _____.

KK PRECISION INC.

By: _____

Name:

Title:

(*) provide details of outstanding accommodation to be rolled including the amount, term and type of accommodation.

EXHIBIT "C"
CONVERSION NOTICE

TO: BANK OF MONTREAL (the "Bank")

RE: Credit Agreement dated September 1, 2011 between the Bank, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**")

- (a) This Conversion Notice is delivered to you pursuant the Credit Agreement. All capitalized terms set forth in this Conversion Notice and not otherwise defined herein shall have respective meanings ascribed thereto in the Credit Agreement.
- (b) The Borrower certifies that as at the date hereof, all representations and warranties contained in the Credit Agreement are true and correct in all material respects with the same effect as if such representations and warranties are made on and as of the date of this Conversion Notice.
- (c) The Borrower certifies that as at the date hereof no Default or Event of Default has occurred and the Borrower covenants that no Default or Event of Default will have occurred and be continuing on the date of the Conversion or will result from the Conversion contemplated herein.
- (d) The Borrower certifies that all other conditions precedent provided for in the Credit Agreement to the Conversion contemplated herein have been satisfied, and that the making of such requested Conversion will not result in any contravention of the Credit Agreement.
- (e) The Borrower hereby gives you notice that on _____, it wishes to undertake a Conversion of the following accommodation outstanding under the [**Operating/Term/Capex**] Facility:

(*)

into the following Accommodations:

Prime Rate Loan

Principal Amount: \$;

U.S. Base Rate Loan

Principal Amount: \$;

LIBOR Loan

Aggregate Principal Amount:\$;
Term: days

Bankers' Acceptance

Face Amount: \$;
Term: days

Dated this ____ day of _____, _____.

KK PRECISION INC.

By: _____

Name:

Title:

(*) provide details of outstanding accommodation to be rolled including the amount, term and type of accommodation.

EXHIBIT "D"
REPAYMENT NOTICE

To: Bank of Montreal (the "**Bank**")

Re: Credit Agreement dated September 1, 2011 between the Bank, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**")

This Repayment Notice is delivered pursuant to the Credit Agreement. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Credit Agreement.

1. The Borrower hereby advises that it is making the following Repayment under the [Operating/Term/Capex] Facility as follows:

(a) type of Availment Option to be repaid:

(b) date of Repayment:

(c) amount of Repayment:

Dated this _____ day of _____, _____.

<>

By: _____

Name:

Title:

EXHIBIT "E"
COMPLIANCE CERTIFICATE
CERTIFICATE OF COMPLIANCE

TO: BANK OF MONTREAL (the "Bank")

RE: Credit Agreement dated September 1, 2011 between the Bank, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**").

The undersigned, <>, being the [**Chief Financial Officer**] of the Borrower and having knowledge of the matters hereinafter set forth, hereby certifies, on behalf of the Borrower, without personal liability as follows:

1.
 - (a) The Borrower has duly and properly caused to be completed the calculations in Appendix "A", for the purpose of confirming compliance with the financial covenants contained in Section 9.03(a) of the Credit Agreement (collectively, the "**Financial Covenants**").
 - (b) The calculations have been completed in accordance with GAAP based upon the most recent [**audited/unaudited**] consolidated financial statements of the Borrower in accordance with the requirements of the Credit Agreement.
 - (c) The Borrower is in compliance with the Financial Covenants, as reflected in the attached schedule of calculations.
 - (d) There are no material variances from the most recent approved business plan of the Borrower delivered to the Bank pursuant to the Credit Agreement, except as set out in any attachment to this Compliance Certificate or as otherwise may have been consented to the Bank in writing.
2. I have read the provisions of the Credit Agreement which are relevant to this Compliance Certificate and have made investigations or examinations as are reasonably necessary to enable me to express an informed opinion on the matters contained in this Compliance Certificate.
3. At the end of the Borrower's most recently completed Fiscal Quarter, being <>, no Default or Event of Default had occurred and was continuing under the Credit Agreement [**or if such an event had occurred and was continuing, a summary of the steps being taken by the Borrower to remedy same are attached as a schedule to this Compliance Certificate**].
4. All representations and warranties contained in the Credit Agreement and each of the other Loan Documents are true and correct in all material respects with the same effect as if such representations and warranties are made on and as of the date of this Compliance Certificate.
5. No Default or Event of Default has occurred and is continuing as of the date hereof and has not been waived in writing by the Bank.

Capitalized terms used herein and not otherwise defined in this Compliance Certificate shall have the meanings respectively ascribed to them in the Credit Agreement.

Dated this _____ day of _____, _____.

Name

Title

SCHEDULE 8.01(E)

(CORPORATE STRUCTURE AND PLACES OF BUSINESS)

Schedule 8.01(e)

(Corporate Structure and Places of Business)

Borrower

Ontario Corporation with its principal place of business located at Bay Adelaide Centre, P.O. Box 2900, 333 Bay Street, Suite 2900, Toronto, Ontario M5H 2T4.

Capitalization:

Shareholder	Number of Common Shares
River VI, L.P.	9,000,000
William Dube, Jr.	250,000
Stratham Development Corporation	250,000

Immediately following the closing of the Target Acquisition, Garth Wheldon, George Koulakian and Andrew Lee will each contribute all of their respective shares of the Target to the Borrower for the number of shares of the Borrower set forth next to each of their names below:

Garth Wheldon	150,000
George Koulakian	50,000
Andrew Lee	50,000

Target

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Capitalization:

Immediately following the closing of the Target Acquisition and the above described rollover transactions, Target will be a wholly-owned subsidiary of Borrower, which will own 14,540,938 voting common shares and 5,340,000 voting Class X Preference shares of Target.

KKP

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Capitalization:

Immediately following the closing of the Target Acquisition, KKP will be a wholly-owned subsidiary of Target, which will own 100 common shares and 1,498,729 of Class B Preference Shares of KKP.

Amalgamated Borrower

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Other Locations:

1. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
2. See Schedule 9.02(o)

Capitalization:

See capitalization table attached

KK Precision Inc.
Capitalization
(All \$ in CAD)

<u>Common Stock</u>	<u>River %</u>	<u>Amt. Paid</u>	<u># of Shares</u>	<u>% Ownership</u>
River VI, L.P.	100.0000%	\$8,750,000.00	8,750,000.00	92.1053%
River VI Parallel, LP	0.0000%	\$0.00	0.00	0.0000%
River VI Group	100.0000%	\$8,750,000.00	8,750,000.00	92.1053%
Bill Dube		\$250,000.00	250,000.00	2.6316%
Stratham Development Corporation		\$250,000.00	250,000.00	2.6316%
Non-Management Shareholders		\$9,250,000.00	9,250,000.00	97.3684%
<u>Management Shareholders</u>				
Garth Wheldon		\$151,640.00	151,640.00	1.5962%
George Koulakian		\$49,180.00	49,180.00	0.5177%
Andrew Lee		\$49,180.00	49,180.00	0.5177%
Management Shareholders		\$250,000.00	250,000.00	2.6316%
Total		\$9,500,000.00	9,500,000.00	100.0000%

	<u>Issued at</u>	
	<u>\$1.00/share</u>	
<u>Stock Options</u>		
Garth Wheldon	440,000.00	
George Koulakian	140,000.00	
Andrew Lee	140,000.00	
Paul Dickinson	95,000.00	
Bosko Maric	95,000.00	
Jim Morrison	95,000.00	
Dan Cristian	40,000.00	
Hariton Garabetian	40,000.00	
Total Management Team	1,085,000.00	
Bill Dube	200,000.00	
Total Issued Option Shares	1,285,000.00	11.9147%
<u>Total Shares (Fully Diluted)</u>	10,785,000.00	

SCHEDULE 8.01(F)
(SPECIFIC PERMITTED LIENS)

Schedule 8.01(f)

(Specific Permitted Liens)

1. Xerox Canada Limited (file no. 642883635, registration no. 20080222 1701 1462 5430).

SCHEDULE 8.01(G)

(OWNED PROPERTIES)

Schedule 8.01(g)
(Owned Properties)

None.

SCHEDULE 8.01(H)

(LEASED PROPERTIES)

Schedule 8.01(h)

(Leased Properties)

1. 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.
2. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3

SCHEDULE 8.01(I)
(MATERIAL AGREEMENTS)

Schedule 8.01(i)

(Material Agreements)

1. Lease Agreement of even date herewith, by and between the Amalgamated Borrower and 104 Oakdale Acquisition Corp.
2. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and Garth Wheldon.
3. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and George Koulakian.
4. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and Andrew Lee.
5. Target Purchase Agreement.
6. Escrow Agreement.
7. BMOCC Loan and the documents related thereto.
8. Management Agreement
9. Shareholders Agreement
10. Amalgamated Borrower's Stock Option Plan
11. Share Purchase Agreement of even date herewith, by and among Borrower, River VI, L.P., and the other "Purchasers" set forth therein.
12. Letter Agreement of even date herewith, by and between Borrower and William Dube, Jr.
13. Indemnity Agreement dated August 26, 2011, by and among Andrew Cohen and Borrower providing indemnification rights to Andrew Cohen for serving as a member of the Borrower's board of directors.
14. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and Target providing indemnification rights to Andrew Cohen for serving as a member of the Target's board of directors.
15. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and KKP providing indemnification rights to Andrew Cohen for serving as a member of KKP's board of directors.
16. Long Term Agreement between KKP and Rolls Royce Canada Limited dated January 31, 2007, as amended.

17. Long Term Pricing Agreement between KKP and Rolls-Royce Power Engineering PLC dated August 25, 2009, as amended.
18. Agreement R-RGCP2003/1 DPC NM004 dated July 24, 2009, by and between Rolls-Royce plc.
19. Long Term Pricing Agreement between KKP and Pratt Whitney Canada Corp. dated September 18, 2002, as amended.
20. Memorandum of Agreement between KKP and Pratt & Whitney Canada Corp. dated April 17, 2008.
21. Equipment Lease dated February 20, 2008, between KKP and Xerox Canada Ltd.
22. KKP is party to non-disclosure or confidentiality agreements that it has entered into with customers, suppliers and other third parties in the ordinary course of business.
23. KKP has two healthcare plans: Healthsource SSQ Policy #56A30/Claimsecure Group #9733 for employees and Sun Policy 70134 – Division I for senior management employees.
24. Cutting Tool Integration Proposal dated August 14, 2007, by and between KKP and Tyson Tool Company Limited.
25. Insurance policies set forth below:
 - Automobile - Royal Sun Alliance Insurance Policy #IRC012226344
 - Commercial - AXA Commercial Insurance Policy #5027845
 - Aerospace - Global Aerospace Policy #21500359-ON
 - Employees & Management - Healthsource SSQ Policy #56A30/Claimsecure Group #9733 and Sun Policy 70134 – Division I
 - Director and Officers and Employment Practices insurance policy

SCHEDULE 8.01(J)
(INTELLECTUAL PROPERTY)

Schedule 8.01(j)
(Intellectual Property)

Trade names:

KK Precision Inc.

Domain names:

www.kkprecision.com

SCHEDULE 8.01(N)
(HAZARDOUS MATERIALS)

Schedule 8.01(n)
(Hazardous Materials)

None.

Schedule 8.01(p)

(Undisclosed Liabilities)

1. Liabilities and obligations under or referred to in that certain letter agreement of even date herewith, by and between Borrower and William Dube, Jr.
2. Liabilities and obligations under or referred to in that certain Share Purchase Agreement of even date herewith, by and among Borrower, River VI, L.P. and the other "Purchasers" referred to therein.
3. Indemnity Agreement dated August 26, 2011, by and among Andrew Cohen and Borrower providing indemnification rights to Andrew Cohen for serving as a member of the Borrower's board of directors.
4. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and Target providing indemnification rights to Andrew Cohen for serving as a member of the Target's board of directors.
5. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and KKP providing indemnification rights to Andrew Cohen for serving as a member of KKP's board of directors.

SCHEDULE 8.01(R)

(GUARANTEES)

Schedule 8.01(r)

(Guarantees)

None.

SCHEDULE 8.01(U)

(LITIGATION)

SCHEDULE 9.02(A)

(PERMITTED DEBT)

SCHEDULE 9.02(O)

(LOCATIONS)

Schedule 9.02(o)

(Locations)

PART I

Prior to the closing of the Target Acquisition and the Borrower/Target Amalgamation, the chief executive office of the Borrower is and will be Bay Adelaide Centre, P.O. Box 2900, 333 Bay Street, Suite 2900, Toronto, Ontario M5H 2T4.

Immediately following the closing of the Target Acquisition and the Borrower/Target Amalgamation, the chief executive office of the Amalgamated Borrower will be 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

PART II

1. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
2. Bradley Ontario Precision Inc. – 164 Buttermill Ave, Concord, Ontario L4K 3X6
3. Bradken Limited – 3040 Osler Street, London, Ontario N5V 1V3
4. CR Components Inc. – 4864 Talbot Hwy 3 West, Cayuga, Ontario NOA 1EO
5. DMI Precision Inc. – 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
6. Delta Grinding Co. – 1283 Matheson Blvd., Mississauga, Ontario L4W 1R1
7. Fountain Plating – 492 Prospect Avenue, West Springfield, MA 01089
8. Byron Products – 3781 Port Union Rd., Fairfield, OH 45014
9. Sablage Au Jet 2000 Inc. – 20815 Chemin Cote Nord, Boisbriand, QC J7E 4H5
10. MacFab Manufacturing Inc. – 1200 Aimco Blvd, Mississauga, Ontario L4W 1B2
11. Specialized Welding – 570 McGeachie Drive, Milton, Ontario L9T 3Y5
12. Bloom Industrial Machining – 135 Industrial Td., Unit #4, Cambridge, Ontario N3H 4W3
13. Alpen Machine & Tool LTD. – 41-A Buttermill Avenue Cocorde, Ontario L4K 3X1
14. MTM Automation & Aerospace Mfg Inc. – 357 Michener Rd., Guelph Ontario N1K 1E8
15. Pratt & Whitney Canada – 1000 Blvd. Marie Victorin, Longueuil, QC
16. Pratt & Whitney Canada c/o Excel Canada Ltd. – 100 World Drive, Mississauga, ON

17. Pratt & Whitney Canada c/o Transport Robert – 65 De Vauderuil, Boucherville, QC
18. Vantage – 6160 Ordan Drive, Mississauga, ON
19. Vac Aero – 1365 Rue Newton, Boucherville, QC
20. Vac Aero – 7451 Rue Verite, St. Laurent, QC
21. Vac Aero – 1371 Speers Rd., Oakville, ON
22. Axis Tool & Gauge Inc. – 664 Bishop Street, Cambridge, ON.

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This amending agreement is made this 31st day of January, 2013.

AMONG:

KK PRECISION INC.

- and -

BANK OF MONTREAL

WHEREAS KKP Acquisition Corp. and Bank of Montreal (the "**Bank**") entered into a credit agreement dated the 1st day of September, 2011 (the "**Credit Agreement**");

AND WHEREAS on or about the 1st day of September, 2011, KKP Acquisition Corp. amalgamated with KK Precision Inc. and Precinda Inc. and continued on as KK Precision Inc. (the "**Borrower**");

AND WHEREAS the Borrower has requested amendments to the Credit Agreement and the Bank has agreed to make such amendments subject to the terms and conditions set out in this amendment agreement (this "**Agreement**");

NOW THEREFORE in consideration of the premises and the agreements herein set out and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I INTERPRETATION

1.1 Definitions.

Unless otherwise defined herein, capitalized terms used in this Agreement shall have the same meanings ascribed to such terms in the Credit Agreement.

1.2 References to Credit Agreement.

Upon execution of this Agreement, the Credit Agreement shall be deemed to have been amended as of the date hereof. The terms "hereof", "herein", "this Agreement" and similar terms used in the Credit Agreement, shall mean and refer to, from and after the date hereof, the Credit Agreement as amended by this Agreement.

1.3 Continued Effectiveness.

Subject only to Section 3.1 hereof, nothing contained in this Agreement shall be deemed to be a waiver by the Bank of compliance by the Borrower of any covenant or agreement contained in, or a waiver of any Default or Event of Default under the Credit Agreement, and each of the parties

hereto agree that the Credit Agreement, as amended by this Agreement, shall remain in full force and effect.

1.4 Benefit of this Agreement.

This Agreement shall enure to the benefit of and be binding upon the Borrower and the Bank and their respective successors and permitted assigns.

1.5 Invalidity of any Provisions.

Any provision of this Agreement which is prohibited by Applicable Law shall be ineffective only to the extent of such prohibition in such jurisdiction without invalidating the remaining terms and provisions hereof and no such invalidity shall affect the obligation of the Borrower to pay the Obligations in full.

1.6 Captions and Headings.

The inclusion of headings preceding the text of the sections of this Agreement and the headings following each Article in this Agreement are intended for convenience of reference only and shall not affect in any way the construction or interpretation thereof.

ARTICLE II
AMENDMENTS, ACKNOWLEDGEMENT AND AGREEMENTS

2.1 Subject to satisfaction of the conditions precedent set forth in Article V of this Agreement, the parties acknowledge and agree (as the case may be) as follows:

- (a) As of the date hereof there are no Outstanding Advances under the Capex Facility. Notwithstanding anything to the contrary in the Credit Agreement or any Loan Document, until agreed to in writing by the Bank (provided that such agreement by the Bank shall not require the payment of any fee by or on behalf of the Borrower to the Bank), the Capex Facility is hereby cancelled, no Advances shall be made thereunder and all necessary changes in the Credit Agreement and the other Loan Documents that are appropriate in the context are deemed to have been made.
- (b) As of the date hereof there are no Outstanding Advances in respect of Interest Rate Management Products. Notwithstanding anything to the contrary in the Credit Agreement or any other Loan Document, until agreed to in writing by the Bank, Interest Rate Management Products shall no longer be available to the Borrower under the Credit Agreement or any other Loan Document and all necessary changes in the Credit Agreement and the other Loan Document that are appropriate in the context are deemed to have been made.
- (c) In this Agreement, "Special Equity Amount" means the aggregate amount of the proceeds from the issuance of up to 3,000,000 shares of preferred stock of the Borrower (the "Preferred Stock") to one or more Affiliates of River Associates Investments, LLC, who are currently shareholders of the Borrower, on or before January 31, 2013 for an aggregate amount of up to Three Million Dollars (Cdn.) (\$3,000,000) (the

"Investment Amount") which represents a per share price of Cdn.\$1.00 (the "Per Share Price"). Although one or more Affiliates of River Associates Investments, LLC will pay the Investment Amount to the Borrower for the Preferred Stock, the Borrower shall be permitted to redeem up to 192,020.85 shares of Preferred Stock (the shares so redeemed being the "Redeemed Shares") from such Affiliates for a redemption price per share equal to the Per Share Price so long as a concurrent sale of shares of Preferred Stock by the Borrower to certain existing shareholders of the Borrower occurs and the aggregated proceeds from such sale are at least equal to the product of the Per Share Price times the aggregate number of Redeemed Shares. For the purposes of this Agreement, the Special Equity Amount shall consist of a: (a) Two Million Dollar (Cdn.) (\$2,000,000) equity cure amount (the "Equity Cure Amount"); and (b) up to One Million Dollar (Cdn.) (\$1,000,000) restructuring charge cure amount (the "Restructuring Cure Amount").

The following provisions shall apply to the Special Equity Amount:

- (i) the Bank hereby waives the requirement pursuant to Section 7.15(a)(iii) of the Credit Agreement for a Repayment in respect of the Special Equity Amount proceeds;
- (ii) the Borrower may at any time deliver a written notice to the Bank advising that all or any portion of the Equity Cure Amount (each, an "Equity Cure Designated Amount") shall be added to EBITDA in the determination of EBITDA in respect of the Fiscal Quarter in which such notice is delivered to the Bank (on a rolling four quarter basis). In such event, the Equity Cure Designated Amount shall be added to EBITDA in the determination of EBITDA for the purposes of calculating the Senior Funded Debt to EBITDA Ratio, Total Funded Debt to EBITDA Ratio and Fixed Charge Coverage Ratio only for such Fiscal Quarter (on a rolling four quarter basis) and the Equity Cure Designated Amount shall be deemed to be utilized and shall be subtracted from the Equity Cure Amount available for future use by the Borrower;
- (iii) in the event that the Borrower incurs restructuring charges in an amount greater Six Hundred Thousand Dollars (Cdn.) (\$600,000) in Fiscal Year 2012 and Fiscal Year 2013 only, the Borrower may deliver a written notice to the Bank advising that all or any portion of the Restructuring Cure Amount (each, a "Restructuring Cure Designated Amount") shall be added to EBITDA in the determination of EBITDA in respect of the Fiscal Quarter in which such notice is delivered to the Bank (on a rolling four quarter basis). In such event, the Restructuring Cure Designated Amount shall be added to EBITDA in the determination of EBITDA for the purposes of calculating the Senior Funded Debt to EBITDA Ratio, Total Funded Debt to EBITDA Ratio and Fixed Charge Coverage Ratio only for such Fiscal Quarter (on a rolling four quarter basis) and the Restructuring Cure Designated Amount shall be deemed to be utilized and shall be subtracted from the Restructuring Cure Amount available for future use by the Borrower;

- (iv) for greater certainty, if EBITDA in respect of any Fiscal Quarter is increased as a result of paragraphs (ii) or (iii) above, (A) the Borrower's compliance with all applicable financial covenants in the Credit Agreement relating to or involving the determination of EBITDA for such Fiscal Quarter shall be determined based on such increased EBITDA and (B) once the Equity Cure Designated Amount or the Restructuring Cure Designated Amount, as the case may be, is added in the determination of EBITDA for such Fiscal Quarter, no Person shall be permitted to replenish the Special Equity Amount.
- (d) The definition of "Applicable Margin" In section 1.01 of the Credit Agreement is hereby amended by replacing the table set out therein in its entirety with the following table:

"

Total Funded Debt to EBITDA Ratio:	Applicable Margin for Prime Rate Loans, and U.S. Dollar Base Rate Loans	Applicable Margin for Bankers' Acceptances and LIBOR Loans	Letter of Credit Fees	Standby Fees
less than or equal to 2.00:1	1.00%	2.25%	2.25%	0.50%
greater than 2.00:1 but less than or equal to 2.50:1	1.25%	2.50%	2.50%	0.50%
greater than 2.50:1 but less than or equal to 3.00:1	1.50%	2.75%	2.75%	0.50%
Greater than 3.00:1 but less than or equal to 4.00:1	1.75%	3.00%	3.00%	0.50%
Greater than 4.00:1 but less than or equal to 5.00:1	2.25%	3.50%	3.50%	0.65%
Greater than 5.00:1	2.75%	4.00%	4.00%	0.80%

"

- (e) The definition of "EBITDA" in Section 1.01 of the Credit Agreement is hereby amended by (i) replacing the word "and" on the tenth line thereof following the words "\$50,000 per Fiscal Year" with a "," and (ii) inserting the words "and (ix) non-recurring expenses in the aggregate amount of up to Six Hundred Thousand Dollars (\$600,000) in Fiscal Year 2012 and Fiscal Year 2013 only" on the thirteenth line thereof before the words "minus (y)".

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- (f) The definition of "Fixed Charge Coverage Ratio" in Section 1.01 of the Credit Agreement is hereby amended by inserting the words "other than management fees paid in Fiscal Year 2012" following the words "Distributions (including management fees)".
- (g) Paragraph (k) in the definition of "Permitted Liens" in Section 1.01 of the Credit Agreement is hereby amended by replacing the words "maximum aggregate amount of \$500,000" with the words "maximum aggregate amount of \$250,000".
- (h) The definition of "Total Funded Debt" in Section 1.01 of the Credit Agreement is hereby amended by (i) inserting the word "(x)" after the word "means" on the first line thereof and (ii) inserting the words "less (y) during Fiscal Year 2013 only, cash on hand of the Companies" in clause (viii) following the words "short term non-interest bearing liabilities".
- (i) Section 3.05(c) of the Credit Agreement is hereby amended by replacing the words "in the minimum amounts of \$1,000,000" with the words "in the minimum amount of \$500,000".
- (j) Section 5.01 of the Credit Agreement is hereby amended by replacing the words "One Million Five Hundred Thousand Dollars (\$1,500,000)" with the words "Five Hundred Thousand Dollars (\$500,000)".
- (k) Section 7.15(a)(ii) of the Credit Agreement is hereby amended by replacing the two references to the words "Two Hundred and Fifty Thousand Dollars (\$250,000)" with the words "One Hundred Thousand Dollars (\$100,000)".
- (l) Section 9.02(d) of the Credit Agreement is hereby amended by replacing the words "in an amount greater than \$250,000" with the amount "in an amount greater than \$100,000".
- (m) Subsections 9.03(a)(i), 9.03(a)(ii) and 9.03(a)(iii) of the Credit Agreement are hereby deleted in their entirety and replaced with the following new subsections:
 - "(i) the Senior Funded Debt to EBITDA Ratio at (A) 3.00:1 or less from December 31, 2012 to and including March 30, 2013, (B) 3.25:1 or less from March 31, 2013 to and including June 29, 2013 and (C) 3.50:1 from June 30, 2013 to and including March 30, 2014, (D) 3.00:1 or less from March 31, 2014 to and including June 29, 2014, (E) 2.50:1 or less from June 30, 2014 to and including September 29, 2014 and (F) 2:25:1 or less for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2014;
 - (ii) the Total Funded Debt to EBITDA Ratio at (A) 5.00:1 or less from December 31, 2012 to and including March 30, 2013, (B) 5.25:1 or less from March 31, 2013 to and including June 29, 2013, (C) 5.50:1 or less from June 30, 2013 to and including March 30, 2014, (D) 5.00:1 or less from March 31, 2014 to and including June 29, 2014, (E) 4.50:1 or less from June 30, 2014 to and including September 29, 2014, (F) 3.50:1 or less from September 30, 2014 to and including September 29, 2015, (G)

2:50:1 or less from September 30, 2015 to and including September 29, 2016 and (H) 2:00:1 for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2016;

- (iii) Fixed Charge Coverage Ratio of (A) 1.05:1 or greater from December 31, 2012 to and including March 30, 2014, (B) 1.10:1 or greater from March 31, 2014 to and including June 29, 2014 and (C) 1.20:1 or greater for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on June 30, 2014; and".

- (n) Section 9.03(b) of the Credit Agreement is hereby amended by deleting such Section in its entirety and replacing same with the following new Section 9.03 (b):

"Capital Expenditures - not make Unfunded Capital Expenditures or permit its Subsidiaries to make Unfunded Capital Expenditures or incur or assume any debt or liability therefor without the prior written consent of the Bank; except that if no Default or Event of Default has occurred and is continuing, or would be caused by such transaction, the Borrower is permitted to make (i) Unfunded Capital Expenditures in an aggregate amount not exceeding \$1,000,000 for the period from the date hereof until September 30, 2012, (ii) Capital Expenditures in an aggregate amount not exceeding \$400,000 for the Fiscal Year ending September 30, 2013, (iii) Capital Expenditures in an aggregate amount not exceeding \$300,000 for the Fiscal Year ending September 30, 2014 and (iv) subject to the Bank's consent in any event for each Fiscal Year of the Borrower thereafter (for the purposes of this Section 9.03(b), any unused permitted Unfunded Capital Expenditure amount in any Fiscal Year may not be carried over to any future Fiscal Year)."

- (o) Section 9.03(c) of the Credit Agreement is hereby amended by

- (i) inserting the words "without the prior written consent of the Bank," before the words "not make any Distributions";
- (ii) deleting the words "Management Fees to River up to the maximum aggregate amount per Fiscal Year equal to \$210,000 and" before the words "all reasonable out-of-pocket expenses incurred by River" in Subsection 9.03(c)(ii);
- (iii) deleting Subsection 9.03(c)(iii) in its entirety and replacing same with the following new Subsection 9.03 (c)(iii)

"Borrower may make Distributions in respect of the redemption or purchase of shares or partnership units of a terminated employee or director up to the maximum aggregate amount of \$50,000;" and
- (iv) deleting Subsections 9.03(c)(iv) and 9.03(c)(v) in their entirety.

- (p) Section 9.03(d) of the Credit Agreement is hereby amended by (i) inserting the words "without the prior written consent of the Bank," before the words "not make, maintain, incur or acquire any investments" and (ii) deleting the text of Subsection 9.03(d)(i) in its entirety and replacing it with the words "[Intentionally Deleted.]".

- (q) Section 9.04 of the Credit Agreement is hereby amended by (i) deleting the word "and" after the ";" at the end of Section 9.04(f) and (ii) renumbering Section 9.04(g) as Section 9.04(h) and inserting the following new Section 9.04(g):

"a monthly management discussion and analysis of the Borrower, including financial highlights and performance relative to the Borrower's business plan by the 30th day after the end of each month; and"

ARTICLE III WAIVER AND CONFIRMATION

3.1 Waiver.

Subject to satisfaction of the conditions precedent set forth in Article V of this Agreement, the Bank confirms that further to Subsections 9.03(a)(i), 9.03(a)(ii) and 9.03(a)(iii) of the Credit Agreement, the Bank hereby waives compliance with such subsections for the Fiscal Quarters ending June 30, 2012 and September 30, 2012 only.

3.2 Confirmation of Security.

The Borrower hereby agrees, acknowledges and confirms to and in favour of the Bank that all Security provided by it pursuant to the Loan Documents prior to the date hereof continues in full force and effect and secures all of the Obligations.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties.

The Borrower hereby represents and warrants to the Bank that immediately after the date hereof all representations and warranties contained in Article VIII of the Credit Agreement shall (other than any representation or warranty expressly stated to be as of a specific date) be true, correct and complete in all material respects as if made at such time.

ARTICLE V CONDITIONS PRECEDENT

5.1 Conditions Precedent.

This Agreement shall not become effective until the Bank shall have received the following, each done or dated (as the case may be) on or before the date hereof and all in form and substance satisfactory to the Bank:

- (a) this Agreement shall have been duly executed and delivered by the Borrower;
- (b) the Bank shall have received all such other certificates, documents and information that it may reasonably request;

- (c) the Borrower shall pay a restructuring fee to the Bank in the amount of Twelve Thousand Five Hundred Dollars (\$12,500). The Borrower acknowledges that such fee has been earned by the Bank and the Borrower's obligation to pay such restructuring fee is unconditional. The Borrower hereby irrevocably authorizes the Bank to debit the bank account maintained by the Borrower with the Bank in payment of such restructuring fee; and
- (d) the Special Equity Amount has been made available to the Borrower on terms acceptable to the Bank.

ARTICLE VI

MISCELLANEOUS

6.1 Further Assurances.

The Borrower hereby agrees to execute and deliver or cause to be executed and delivered all such instruments and to take all such action as the Bank may reasonably request in order to more fully effectuate and accomplish the intent and purposes of and to carry out the terms of this Agreement.

6.2 Governing Law; Waiver of Jury Trial.

This Agreement shall be governed, construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Without prejudice to the right of the Bank to commence any proceedings with respect to this Agreement in any other proper jurisdiction, the Borrower hereby attorns and submits to the non-exclusive jurisdiction of the courts of the Province of Ontario, provided that the Bank shall be entitled to commence actions in the courts of any other jurisdiction in its discretion for the purpose of enforcing the provision of any of the Loan Documents. THE BORROWER AND THE BANK HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY OTHER DOCUMENT CONTEMPLATED HEREIN.

6.3 Time of the Essence.

Time shall be of the essence of this Agreement.


6.4 Execution by Fax and Counterparts.

This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts taken together shall constitute one and the same Agreement. This Agreement may be executed by facsimile or electronic mail in portable document format ("pdf") and any signature contained hereon by facsimile or electronic mail in pdf shall be deemed to be equivalent to an original signature for all purposes.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KK PRECISION INC.

By: 
Name: *W. CRAIG BAKER*
Title: *SECRETARY*

By: _____
Name: _____
Title: _____

BANK OF MONTREAL

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KK PRECISION INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

BANK OF MONTREAL

By:  _____
Name: **Ethan Goldberg**
Title: **Managing Director**

By:  _____
Name: **Travis Gehrke**
Title: **Director**

TAB E

Exhibit "E" to the Affidavit of George Koulakian,
sworn before me this 28th day of May, 2014.

A handwritten signature in black ink, consisting of stylized, overlapping loops and strokes, positioned above a horizontal line.

Commissioner for Taking Affidavits, etc.

Christopher Blake Moran

Execution Copy

KKP ACQUISITION CORP.

- and -

BMO CAPITAL CORPORATION

CREDIT AGREEMENT

Made as of September 1, 2011



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CREDIT AGREEMENT

This Agreement is made this 1st day of September, 2011.

BETWEEN:

KKP ACQUISITION CORP.

- and -

BMO CAPITAL CORPORATION

WHEREAS BMO Capital Corporation has agreed to provide a term loan to the Borrower upon and subject to the terms and conditions contained in this Agreement;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the parties agree as follows:

ARTICLE I - INTERPRETATION

1.01 Definitions

In this Agreement, the following words and phrases shall have the meanings set forth below:

"Acceleration Date" means the earlier of: (i) the delivery by the Lender to the Borrower of written notice that an Event of Default (other than an Insolvency Event) has occurred and is continuing and that all Obligations have become immediately due and payable; and (ii) the occurrence of an Insolvency Default;

"Advance" means the borrowing by the Borrower on the Closing Date in an amount up to the Term Facility Limit.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified; notwithstanding the foregoing, all references to **"Affiliate"** in Article XII hereof only shall exclude River and each of River's Affiliates;

"Agreement" means this credit agreement as it may be amended, replaced or restated from time to time;

"Amalgamated Borrower" shall have the meaning ascribed thereto in the definition of Borrower/Target Amalgamation;

"Applicable Law" means, in respect of any Person, property, transaction or event, all applicable laws, statutes, rules, by-laws and regulations and all applicable official directives, orders, judgments and decrees of Governmental Authorities having the force of law;

"Borrower" means KKP Acquisition Corp., or any successor thereto including by way of amalgamation;

"Borrower/Target Amalgamation" means the amalgamation of the Borrower, the Target and KKP on or about September 1, 2011 with the amalgamated corporation resulting from such amalgamation being called KK Precision Inc. (the **"Amalgamated Borrower"**);

"Business Day" means any day on which the main branch of the Senior Lender in Toronto is open for normal banking business but specifically excluding any Saturday, Sunday or statutory holiday in the Province of Ontario;

"Canadian Dollars" or **"\$"** or **"Cdn. \$"** means the lawful money of Canada;

"Capital Expenditures" means expenditures in respect of the purchase, lease, license, acquisition, erection, development, improvement or construction of capital assets which are required to be capitalized in accordance with GAAP;

"Cash Taxes" in respect of any fiscal period means amounts actually paid by the Companies in such fiscal period in respect of income and capital taxes (whether relating to such fiscal period or any other fiscal period);

"Change of Control" means if Fund ceases to own, directly or indirectly, legally and beneficially, 51% of the issued and outstanding capital stock of the Borrower (or the Amalgamated Borrower after the Borrower/Target Amalgamation);

"Closing Date" means September 1, 2011 or such other date as shall be agreed upon by the Lender and the Borrower.

"Companies" means the Borrower and all of its Subsidiaries from time to time; and **"Company"** means any one of the Companies as the context requires;

"Compliance Certificate" means a certificate of the Borrower in the form of Exhibit "A";

"Control" means, in respect of any Person, the power to direct or cause the direction of management and policies of such Person, directly or indirectly, through the ownership of voting securities, contract or otherwise; and each of **"Controlled"** and **"Controlling"** has a corresponding meaning;

"Default" means an event which has occurred and which, with the giving of notice or the lapse of time or both, would constitute an Event of Default;

"Distribution" means, with respect to any Company, any payment made by such Company to or on behalf of its shareholders (including without limitation unitholders in the case of a limited partnership) or to any Related Person thereto or to any officer, director or employee thereof by any direct or indirect means whatsoever, including payments in respect of salary, bonuses, commissions, employee loans, Management Fees, other management fees, directors' fees, dividends, return on capital, distributions, investments, advances, loans, the redemption or purchase for cancellation of shares or partnership units, and payments on account of principal, interest or fees in respect of indebtedness due by such Company to such persons; and whether

payments are made to such persons in their capacity as shareholders, directors, officers, employees, creditors or otherwise; provided that any payment of salary or commissions to employees or management in the ordinary course of business and in accordance with such Company's historical practice shall not be considered a "Distribution" hereunder;

"EBITDA" means, in respect of any fiscal period, the consolidated net income of the Borrower in such fiscal period plus (x) without duplication and to the extent deducted in determining net income for such period, the sum of (i) Interest expense for such period, (ii) income tax expense for such period, (iii) all Management Fees (up to the maximum amount of \$210,000), (iv) all amounts attributable to depreciation and amortization expense for such period, (v) the fees and expenses paid by the Companies in connection with the consummation of the Target Acquisition, the Borrower Amalgamation, this Agreement and the Senior Credit Agreement (including any Management Fee in the amount of \$450,000), (vi) all non-cash losses in connection with foreign currency translation adjustments in connection with the Term Facility and the Senior Obligations, (vii) all director's fees up to \$50,000 per Fiscal Year and (viii) any extraordinary non-cash or non-recurring charges for such period which are satisfactory and approved by the Lender acting reasonably (excluding any loss or charge from any sale, transfer, lease or other disposition of assets during such period), minus (y) without duplication and to the extent included in net income for such period, the sum of any extraordinary non-cash or non-recurring gains for such period and any non-cash items of income for such period (excluding any gain from any sale, transfer, lease or other disposition of assets during such period and all gains in connection with foreign currency translation adjustments in connection with the Term Facility and the Senior Obligations); all determined in accordance with GAAP; provided, however, that the parties agree that for purposes of computing and testing financial covenants hereunder, EBITDA for the Fiscal Quarters ending December 31, 2010, March 31, 2011 and June 30, 2011 shall be \$992,343, \$849,824 and \$1,068,276, respectively;

provided that:

- (a) in respect of each Company which has become a Subsidiary of the Borrower in such fiscal period, the determination of EBITDA shall include the net income of such Company before deduction of Interest, income taxes, extraordinary items which are satisfactory and approved by the Lender, depreciation, amortization and non-cash charges as if such Company had been a Subsidiary of the Borrower during such fiscal period (notwithstanding that such Company may not have been a Subsidiary of the Borrower for the entirety of such fiscal period), and all historical expenses of a non-recurring nature which are satisfactory and acceptable to the Lender incurred by such Company during such period shall be added back; and
- (b) in respect of each Company which has ceased to be a Subsidiary of the Borrower in the immediately preceding twelve month period, EBITDA shall be determined as if such Company had not been a Subsidiary of the Borrower during such fiscal period;

"Equivalent Amount" means, in relation to an amount in one currency, the amount in another currency that could be purchased by the amount in the first currency determined by reference to the applicable Exchange Rate;

"Event of Default" has the meaning ascribed in Section 12.01;

"Exchange Rate" in connection with any amount of Canadian Dollars to be converted into another currency pursuant to this Agreement for any reason, or vice-versa, means the Senior Lender's spot rate of exchange for converting Canadian Dollars into such other currency or vice-versa, as the case may be, quoted as the offering rate for wholesale transactions by the Senior Lender at approximately noon (Toronto time) on the effective date of such conversion;

"Fiscal Quarter" means a fiscal quarter of the Borrower and after the Borrower/Target Amalgamation, a fiscal quarter of the Amalgamated Borrower;

"Fiscal Year" means a fiscal year of the Borrower, and after the Borrower/Target Amalgamation, a fiscal year of the Amalgamated Borrower;

"Fixed Charge Coverage Ratio" means, in respect of any calendar month, the ratio of: (i) EBITDA in the fiscal period comprised of such month and the immediately preceding eleven months less Cash Taxes paid in cash by the Companies, Distributions (including management fees) paid in cash by any Company to any Related Person (for greater certainty, including the Management Fees), and Unfunded Capital Expenditures for such period; to (ii) Total Funded Debt Service in respect of the fiscal period comprised of such month and the immediately preceding eleven months; provided that, up to \$750,000 of Relocation Costs or relocation Capital Expenditures may be added back to EBITDA or subtracted from Unfunded Capital Expenditures, as the case may be, for the purposes of calculating the Fixed Charge Coverage Ratio only, which addition or subtraction will only be made one time in respect of the Fiscal Year in which the relocation occurs;

"Fund" means River VI, L.P. and a partnership to be formed and managed by River Associates VI, LLC, currently contemplated to be called River VI Parallel, L.P.;

"GAAP" means generally accepted accounting principles in Canada as approved by the Canadian Institute of Chartered Accountants in effect from time to time until such time as the Borrower adopts the International Financial Reporting Standards ("IFRS") and thereafter, IFRS and its interpretations adopted by the International Accounting Standards Board;

"Governmental Authority" means any: (i) federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the foregoing; or (iii) any quasi-governmental, judicial or administrative body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

"Guarantee" means any agreement by which any Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes liable upon, the obligation of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person or otherwise assures any creditor of such Person against loss, and shall include, without limitation, any contingent liability under any letter of credit or similar document or instrument;

"Hazardous Materials" means any contaminant, pollutant, waste or substance that is likely to cause immediately or at some future time harm or degradation to the surrounding environment or risk to human health; and without restricting the generality of the foregoing, including any pollutant, contaminant, waste, hazardous waste or dangerous goods that is regulated by any

Requirements of Environmental Law or that is designated, classified, listed or defined as hazardous, toxic, radioactive or dangerous or as a contaminant, pollutant or waste by any Requirements of Environmental Law;

"Insolvency Default" means an Event of Default described in Section 12.01(h) or (i);

"Insolvency Legislation" means legislation in any applicable jurisdiction relating to reorganization, arrangement, compromise or re-adjustment of debt, dissolution or winding-up, or any similar legislation, and specifically includes for greater certainty the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada) and the *Bankruptcy Code* (United States), and in each case, any legislation similar to or enacted in replacement of the foregoing from time to time;

"Intellectual Property" has the meaning ascribed in Section 8.01(j).

"Interest" means interest on loans, stamping fees in respect of bankers' acceptances, the difference between the proceeds received by the issuers of bankers' acceptances and the amounts payable upon the maturity thereof, issuance fees in respect of letters of credit, the interest component or imputed interest on capital leases and any other charges or fees in connection with the extension of credit which are determined by reference to the amount of credit extended, plus standby fees in respect of the unutilized portion of any credit facility; but for greater certainty "Interest" shall not include agency fees, arrangement fees, structuring fees, fees relating to the granting of consents, waivers, amendments, extensions or restructurings, the reimbursement of costs and expenses, and any similar amounts which may be charged from time to time in connection with the establishment, administration or enforcement of credit facilities;

"Interest Payment Date" means the day of each calendar month on which the Lender determines that interest is to be paid by the Borrower to the Lender, being the last Business Day of each calendar month;

"Investment" includes the acquisition or holding of capital stock or other equity interests or debt obligations of any Person (including a loan or advance to any such Person), the acquisition or holding of an interest (partnership or otherwise) or joint venture interest in any Person, a contribution of capital to any Person, an investment made or held by a Person, directly or indirectly, in another Person (whether such investment was made by the first-mentioned Person in such other Person or was acquired from a third party), the assumption of liabilities (contingent or otherwise) of any Person, and a purchase or other acquisition of assets (or any interest therein, such as a royalty interest) comprising all or a portion of the assets used in connection with a business; but for greater certainty, the provision of services by a Company to any other Person (including another Company) in the ordinary course of business on usual payment terms shall not constitute an Investment;

"Judgment Currency" has the meaning ascribed in Section 12.05.

"KKP" means KK Precision Inc. and its successors;

"Landlord Agreement" means, in respect of any real property leased by a Company from a landlord pursuant to a lease, an agreement given by the landlord in favour of the Lender which

"Minor Title Defects" in respect of any parcel of land means defects or irregularities in the title to such land (specifically including easements, rights of way, servitudes and similar rights in land granted to or reserved by other Persons) which are of a minor nature and in the aggregate will not materially affect the Security or materially impair the use of such land for the purposes held by the owner thereof;

"OBCA" means the *Business Corporations Act* (Ontario) as it may be amended from time to time;

"Obligations" means, at any time, (i) all direct and indirect, contingent and absolute obligations and liabilities of the Borrower to the Lender under or in connection with this Agreement and the Security or any of the other Loan Documents and all accrued and unpaid interest thereon, and all fees, expenses and other amounts payable pursuant to this Agreement, the Security and the other Loan Documents;

"Owned Properties" means those real properties owned by the Companies, respectively, listed in Schedule 8.01(g) attached hereto;

"Pension Plan" means a pension plan or pension benefit plan applicable to employees of any Company which is subject to funding requirements established by applicable pension benefits legislation in any jurisdiction;

"Permitted Liens" means:

- (a) Statutory Liens not at the time overdue, or which are overdue but the validity of which is being contested in good faith and in respect of which reserves satisfactory to the Lender have been established;
- (b) Liens for taxes, duties and assessments which may be overdue but the validity of which is being contested in good faith and in respect of which reserves satisfactory to the Lender have been established;
- (c) Liens or rights of distress reserved in or exercisable under any lease for rent or for compliance with the terms of such lease (provided that the recognition of such Liens or rights as a permitted encumbrance shall not prejudice the priority of the Security over such Liens or rights as determined in accordance with applicable law);
- (d) any obligations or duties affecting any lands due to any public utility or Governmental Authority with respect to any franchise, grant, licence or permit and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands under government permits, leases or other grants; which obligations, duties and defects in the aggregate do not materially impair the use of such property, structures or facilities for the purpose for which they are held;
- (e) Liens incurred or deposits made in connection with contracts, bids, tenders or expropriation proceedings, or to secure workers' compensation, unemployment insurance or other social security obligations, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, warehousemen's, carriers' and other similar Liens and deposits;

- (f) Liens given to a public utility or Governmental Authority to secure obligations incurred to such utility, municipality, government or other authority in the ordinary course of business;
- (g) Liens and privileges arising out of judgments or awards in respect of which: an appeal or proceeding for review has been commenced; a stay of execution pending such appeal or proceedings for review has been obtained; and reserves satisfactory to the Lender have been established;
- (h) any mechanic's, labourer's, materialman's statutory or other similar Lien arising in the ordinary course of business or out of the construction or improvement of any lands or arising out of the furnishing of materials or supplies therefor, the action to enforce which has not proceeded to a final judgment;
- (i) undetermined or inchoate Liens incidental to the normal business operations of a Company not at the time overdue, or which are overdue but have not been filed against such Company or any of its properties pursuant to applicable law and the validity of which is being contested in good faith and reserves satisfactory to the Lender have been established;
- (j) Minor Title Defects;
- (k) Purchase-Money Security Interests up to the maximum aggregate amount of \$500,000 incurred in connection with the purchase or leasing of capital equipment, except to the extent that any such purchase or leasing of capital equipment is not in compliance with the restrictions on capital expenditures set out in paragraph 9.03(b);
- (l) Liens securing Subordinated Debt of any Company to the extent such Subordinated Debt is specifically permitted under Section 9.02(a) hereof and the Lender has specifically consented in writing to the granting of Liens in favour of the holder of such Subordinated Debt;
- (m) the Specific Permitted Liens, provided that such Liens charge only leased equipment and any proceeds therefrom (and provided further that the indebtedness owing in respect of such Liens is otherwise permitted hereunder) and perfected by the financing statement registrations or the equivalent in other relevant jurisdictions with the particulars listed on Schedule 8.01(f) (the Borrower hereby represents and warrants to the Lender, with respect to itself and also with respect to each of its Subsidiaries, that such Specific Permitted Liens listed/perfected by the registrations on Schedule 8.01(f) relate solely to equipment leased from such secured parties and the proceeds therefrom and that any such Liens do not charge or create a Lien against any other property, assets or undertaking of the Borrower or such applicable Subsidiary, as the case may be, other than such specific equipment and the proceeds therefrom);
- (n) Liens in favour of the Lender or the Senior Lender; and
- (o) Liens consented to in writing by the Lender;

provided that the use of the term "Permitted Liens" to describe such interests and Liens shall mean that they are permitted to exist (whether in priority to or subsequent in priority to the Security, as determined by applicable law), and shall not be interpreted as meaning that such interests and Liens are entitled to priority over the Security;

"Person" includes an individual, corporation, partnership, trust, unincorporated association, Governmental Authority or any combination of the above or any other entity whatsoever;

"Premium" means the fee paid by the Borrower to the Lender in accordance with Section 3.05;

"Prepayment" means a Repayment voluntarily made by the Borrower under the Term Facility, which is not a scheduled Repayment thereunder;

"Prepayment Date" means the date on which a Prepayment is made;

"Purchase-Money Security Interest" means a Lien on any property created, issued or assumed to secure the unpaid purchase price in respect of such property, provided that such Lien is restricted to such property acquired and secures an amount not in excess of the purchase price thereof;

"Related Person" in relation to any Person means any subsidiary, affiliate or associate (as such terms are defined in the OBCA) of such Person;

"Relocation Costs" means relocation costs approved by the Lender in writing, which costs must be included in a business plan delivered to the Lender pursuant to Section 9.04(d) prior to being incurred;

"Repayment" means a repayment by the Borrower on account of the Obligations;

"Requirements of Environmental Law" means, all present and future (i) obligations under common law, (ii) Applicable Law, (iii) requirements announced by a Governmental Authority as having immediate effect (provided that at the time of making such announcement the government also states its intention of enacting legislation to confirm such requirements retroactively), (iv) all directives, policies and guidelines issued by any Governmental Authority charged with the administration thereof which purport to have the force of law, and (v) all requirements imposed under any clean-up, compliance or other order made pursuant to any of the foregoing, relating to environmental, health or safety matters including, but not limited to, all such obligations and requirements which relate to (a) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation and (b) exposure to Hazardous Materials;

"River" means River Associates Investments, LLC;

"Security" means the security required to be provided pursuant to Article X, and all other security, documents and agreements delivered by the Companies and other Persons (or any one or more of them) to the Lender from time to time as security for the payment and performance of the Obligations, and the security interests, mortgages, charges, hypothecs, assignments and Liens constituted by the foregoing;

"Senior Credit Agreement" means the credit agreement between the Borrower and the Senior Lender, dated as of September 1, 2011.

"Senior Loan Documents" means the Senior Credit Agreement, and the security and all other documents delivered pursuant thereto.

"Senior Lender" means Bank of Montreal and its successors and assigns.

"Senior Obligations" means all present and future indebtedness, liabilities and obligations of the Borrower and its Subsidiaries under the Senior Loan Documents.

"Shareholder Agreement" means the shareholder agreement dated September 1, 2011 by and among the Borrower and the entities and individuals listed therein as "Shareholders" of the Borrower;

"Specific Permitted Liens" means the Liens described in Schedule 8.01(f);

"Statutory Liens" means Liens in respect of any property or assets of a Company created by or arising pursuant to any applicable legislation including in favour of any Person (such as but not limited to a Governmental Authority), including Liens arising in connection with such Company's obligation to deduct and remit employee source deductions and goods and services tax pursuant to the *Income Tax Act* (Canada), the *Excise Tax Act* (Canada), the *Canada Pension Plan* (Canada), the *Employment Insurance Act* (Canada) and in each case, any legislation similar to or enacted in replacement of the foregoing from time to time;

"Subordinated Debt" in respect of any Company to any Person means any indebtedness of such Company to any Person (other than another Company) for borrowed money, in respect of which the holder thereof has entered into a subordination agreement in form and substance satisfactory to the Lender, registered in all places where necessary or desirable to protect the priority of the Security, which shall provide (among other things) that: (i) the holder of such indebtedness may not receive any payments on account of principal or interest thereon (except to the extent, if any, expressly permitted therein); (ii) any Liens held in respect of such indebtedness are subordinated to the Security; and (iii) the holder of such indebtedness may not take any enforcement action in respect of such indebtedness or Liens without the prior written consent of the Lender (except to the extent, if any, expressly permitted therein);

"Subsidiary" means a Business Entity which is Controlled by another Business Entity (for purposes of this definition, **"Business Entity"** means a corporation, company, partnership, limited partnership, trust, joint venture or any other type of artificial Person) including without limitation a subsidiary as such term is defined in the OBCA (and for greater certainty includes a subsidiary of a subsidiary);

"Target" means Precinda Inc. and its successors;

"Target Acquisition" means the acquisition by the Borrower of all of the capital stock of the Target (and indirectly KKP) pursuant to the Target Purchase Agreement;

"Target Purchase Agreement" means the share purchase agreement dated September 1, 2011 by and among, *inter alia*, the Borrower, the Vendor, Target and KKP in respect of the sale to the

Borrower of all of the capital stock of the Target owned by the Vendor, as such agreement may have been or may hereafter be amended, restated or replaced from time to time;

"Term Facility" has the meaning ascribed thereto in Section 3.01;

"Term Facility Limit" means Four Million Five Hundred Thousand Dollars (\$4,500,000);

"Term Facility Maturity Date" means March 1, 2017;

"Total Funded Debt" means all obligations of the Companies to pay (in whole or in part) (without duplication) (i) liabilities which, in accordance with GAAP, would be classified upon the unconsolidated balance sheet of that person prepared as at such time as indebtedness for borrowed money, including the Obligations, the Senior Obligations, other bank indebtedness, long-term debt, capital lease obligations, indebtedness to Affiliates, Subordinated Debt, interest-bearing liabilities, obligations secured by Purchase-Money Security Interests, and other financial indebtedness, (ii) the principal amount of, and any premiums and capitalized interest payable in respect of, indebtedness for the deferred purchase price of property or services, (iii) the principal amount of, and any premiums and capitalized interest payable in respect of, indebtedness payable under or in respect of any Lien upon any property acquired (whether or not assumed), (iv) the amount which is or (as the case may be) would be payable by a Company to a counterparty pursuant to any hedging or derivative entered into by such Company and in effect at that time if such hedges or derivatives have been or (as the case may be) were to be terminated at such time as the result of the default or termination event of such Company, (v) amounts payable, actual or contingent, primary, secondary or by way of guarantee, matured or unmatured, under, by reason of or otherwise in respect of, any (A) bankers' acceptance, (B) sale of promissory notes, sale of accounts, factoring, securitization or discounting arrangement to the extent recourse to such person or any Affiliate of it exists to recover such amounts payable (C) standby credit, bank guarantee or performance bond issued to secure obligations that do not constitute trade obligations incurred in the ordinary course of conducting day-to-day business, (D) any liability under any sale and leaseback transaction which does not create a liability on the consolidated balance sheet of such person prepared in accordance with GAAP, (E) any liability under any financing lease or so-called "synthetic" lease transaction, (F) any liability under any operating lease to pay any guaranteed residual value of equipment leased or (G) any obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of the Borrower and its Subsidiaries, prepared in accordance with GAAP, (vi) the redemption price of any securities issued by the Companies having attributes substantially similar to debt (such as securities which are redeemable at the option of the holder), (vii) financial assistance by means of a loan, guarantee or otherwise to any person and (viii) any amount payable under any direct or indirect guarantee of any amount of the nature described in any of Clauses (i) to (vii) above, but excluding accounts payable, future income taxes (both current and long-term) and short term non-interest bearing liabilities;

"Total Funded Debt to EBITDA Ratio" means, in respect of any calendar month, the ratio of Total Funded Debt at the end of such month to EBITDA in such month, in each case comprised of such month and the immediately preceding eleven months;

"Total Funded Debt Service" means, in respect of any fiscal period, for the Borrower on a consolidated basis and without duplication: (i) the aggregate amount of cash Interest paid in respect of the Total Funded Debt in respect of such fiscal period (for greater certainty, not including any Interest which is capitalized and not paid or payable during such fiscal period); plus (ii) the aggregate amount of scheduled principal payments and scheduled capital lease payments paid in respect of the Total Funded Debt (for greater certainty, including any principal payment paid in respect of Subordinated Debt to the extent such payment is permitted hereunder and under the terms of a subordination agreement delivered to the Lender in respect of such fiscal period except for the portion of any final payment due in respect of such Total Funded Debt which the Lender considers to be a "balloon payment" and any amount paid in connection with the exercise of an option to purchase equipment under a capital lease);

"U.S. Dollars" or "U.S.\$" means the lawful money of the United States;

"Unfunded Capital Expenditures" means Capital Expenditures funded by the Borrower's cash flow or from the Operating Facility (as defined in the Senior Credit Agreement);

"Vendors" means collectively, Garth Wheldon, Dundee Staunton, Glynn Williams, Ken Beel, William Deluce, George Koulakian, Andrew Lee, James Morrison, Paul Dickinson, Bosko Maric, Dan Cristian, Hariton Garabetian, Paul Murphy, David Williamson and Precinda Corp.; and

"Work Fee" means the non-refundable work fee in the amount of \$67,500 previously earned by the Lender of which a portion has been paid to the Lender and the balance shall be paid to the Lender on the Closing Date.

1.02 Accounting Principles

Unless otherwise provided herein, all financial terms used in this Agreement shall be determined in accordance with GAAP in effect at the date of determination. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other computation is required to be made for the purpose of this Agreement, such determination or calculation shall be made in accordance with GAAP applied on a consistent basis, unless otherwise indicated. If any changes in accounting principles, from those used in the preparation of the financial statements of the Borrower for the Borrower's 2010 Fiscal Year based on GAAP, occur by reason of any change in the rules, regulations, pronouncements, opinions or other requirements of the Canadian Institute of Chartered Accountants (or any successor thereto or agency with similar function), or the adoption by the Borrower of the International Financial Reporting Standards ("IFRS"), and such change in accounting principles results in a change in the method or results of calculation of financial covenants or the terms related thereto contained in this Agreement, the Borrower shall, at its option, either (a) furnish to the Lender, together with each delivery of the financial statements required to be delivered hereby, a written reconciliation setting forth the differences that would have resulted if such financial statements had been prepared utilizing existing GAAP (in which case the method and calculation of financial covenants and the terms related thereto hereunder shall continue to be determined in accordance with GAAP existing prior to giving effect to such change) or (b) agree with the Lender to amend such financial covenants or terms in such manner as the Lender shall require in order to reflect fairly such changes so that the criteria for evaluating the financial condition of the Borrower shall be the same in commercial effect after, as well as before, such changes are made (in which case

the method and calculation of financial covenants and the terms related thereto hereunder shall be determined in the manner so agreed).

1.03 Currency References

All monetary amounts referred to in this Agreement are references to Canadian Dollars unless otherwise noted.

1.04 References to Statutes

Whenever in this Agreement reference is made to a statute or regulations made pursuant to a statute, such reference shall be deemed to include all amendments to such statute or regulations from time to time and all statutes or regulations which may come into effect from time to time substantially in replacement for the said statutes or regulations.

1.05 Extended Meanings

Terms defined in the singular have the same meaning when used in the plural, and vice-versa. When used in the context of a general statement followed by a reference to one or more specific items or matters, the term "including" shall mean "including, without limitation", the term "include" shall mean "include, without limitation" and the term "includes" shall mean "includes, without limitation". Any reference to the Lender's opinion, consent or discretion shall mean that the Lender's opinion, consent or discretion (including phrases such as "in the discretion of", "in the opinion of", "to the satisfaction of" and similar phrases) shall mean that such discretion is absolute and unfettered (and shall not imply any obligation to act reasonably), unless otherwise expressly stated.

1.06 Exhibits and Schedules

The following exhibits and schedules are attached to this Agreement and incorporated herein by reference:

Exhibit "A"	-	Compliance Certificate
Schedule 8.01(e)	-	Corporate Structure and Places of Business
Schedule 8.01(f)	-	Specific Permitted Liens
Schedule 8.01(g)	-	Owned Properties
Schedule 8.01(h)	-	Leased Properties
Schedule 8.01(i)	-	Material Agreements
Schedule 8.01(j)	-	Intellectual Property
Schedule 8.01(n)	-	Hazardous Materials
Schedule 8.01(p)	-	No Undisclosed Liabilities
Schedule 8.01(r)	-	Guarantees
Schedule 9.02(n)	-	Locations

ARTICLE II - OPERATING FACILITY

[Intentionally deleted]

ARTICLE III- TERM FACILITY

3.01 Establishment of Term Facility and Availment

Upon and subject to the terms and conditions of this Agreement, the Lender agrees to provide a non-revolving loan (the "**Term Facility**") under which the Borrower may borrow an aggregate principal amount up to the Term Facility Limit. The Borrower shall be entitled to one drawdown under the Term Facility on the Closing Date; and thereafter no further Advance shall be permitted.

3.02 Purpose of Term Facility

Subject to the terms and conditions of this Agreement, the Term Facility may be used by the Borrower to assist the Borrower in paying amounts required to be paid by the Borrower to complete the Target Acquisition.

3.03 Repayment

The Obligations under the Term Facility shall become due and payable on the earliest of: (i) the Acceleration Date; and (ii) the Term Facility Maturity Date.

3.04 Voluntary Prepayments

Subject to Section 3.05, the Borrower shall be entitled to make a Prepayment, in whole or in part, at any time, provided that the Borrower first provides the Lender with 5 Business Days' irrevocable written notice of its intent to make such Prepayment. Each such Prepayment must be in a minimum amount of \$500,000 and must be accompanied by all accrued and unpaid interest on the principal amount being prepaid, together with the Premium, if any.

3.05 Premium

If the Borrower makes a Prepayment on any date prior to 24 months following the Closing Date, or if the principal amount of the Obligations is accelerated or the Term Facility is otherwise terminated before the second anniversary of the Closing Date, the Borrower shall pay the Lender a premium (the "**Premium**") in an amount equal to 24 months of interest on the amount of the Prepayment, or on the principal amount of the Obligations, as the case may be, in either case less the amount of interest previously received by the Lender to date. The Premium will not be owed upon any Prepayment made following the second anniversary of the Closing Date.

3.06 Payment of Interest and Fees

Subject to Section 3.07, the principal amount of the Obligations shall bear interest, both before and after Default and judgment on any unpaid amount thereof until all of the Obligations have been satisfied in full at a rate of 14% per annum; 12% of which shall be calculated and payable monthly in arrears on each Interest Payment Date and 2% of which shall be calculated and compounded monthly and payable on the earliest of: (a) the Term Facility Maturity Date; (b) repayment of the principal amount of the Obligations or any part thereof; and (c) acceleration of the Obligations upon the Acceleration Date.

3.07 Default Interest Rate

Upon the occurrence of an Event of Default which is continuing, interest on the principal amount of the Obligations shall be 16% per annum, payable on demand.

ARTICLE IV— CAPEX FACILITY

[Intentionally deleted]

ARTICLE V- RISK MANAGEMENT FACILITY

[Intentionally deleted]

ARTICLE VI— MASTERCARD FACILITY

[Intentionally deleted]

ARTICLE VII- GENERAL CONDITIONS

7.01 Matters Relating to Interest

- (a) Unless otherwise indicated, interest on any outstanding principal amount shall be calculated daily and shall be payable monthly in arrears on the Interest Payment Date. If the Interest Payment Date is not a Business Day, the interest payment due on such day shall be made on the next Business Day, and interest shall continue to accrue on the said principal amount and shall also be paid on such next Business Day. Interest shall accrue from and including the day upon which the Advance is made and ending on but excluding the day on which such Advance is repaid or satisfied, both before and after maturity, default and judgment.
- (b) Unless otherwise stated, in this Agreement if reference is made to a rate of interest, fee or other amount "per annum" or a similar expression is used, such interest, fee or other amount shall be calculated on the basis of a year of three hundred and sixty-five (365) or three hundred and sixty-six (366) days, as the case may be. If the amount of any interest, fee or other amount is determined or expressed on the basis of a period of less than one (1) year of three hundred and sixty-five (365) or three hundred and sixty-six (366) days, as the case may be, the equivalent yearly rate is equal to the rate so determined or expressed, divided by the number of days in the said period, and multiplied by the actual number of days in that calendar year.
- (c) Subject to Section 3.07 above, any interest not paid when due, shall bear interest (before as well as after judgment), payable on demand, at a rate per annum equal to the rate of interest applicable under this Agreement to the Obligations.

- (d) Notwithstanding any other provisions of this Agreement, if the amount of any interest, premium, fees or other monies or any rate of interest stipulated for, taken, reserved or extracted under this Agreement or the Security would otherwise contravene the provisions of section 347 of the *Criminal Code* (Canada), section 8 of the *Interest Act* (Canada) or any successor or similar legislation, or would exceed the amounts which the Lender is legally entitled to charge and receive under any law to which such compensation is subject, then such amount or rate of interest shall be reduced to such maximum amount as would not contravene such provision; and to the extent that any excess has been charged or received the Lender shall apply such excess against the Obligations and refund any further excess amount.
- (e) The parties hereto acknowledge that there is a material distinction between the nominal and effective rates of interest and that they are capable of making the calculations necessary to compare such rates and that the calculations herein are to be made using the nominal rate method and not on any basis that gives effect to the principle of deemed reinvestment of interest.

7.02 Payment of Principal, Interest and Fees

All amounts payable by the Borrower under the Loan Documents shall be paid in immediately available funds to the Lender at the Lender's Office not later than 12:00 noon (Toronto time) for value on the date when due. Any amount not received by 12:00 noon on the date due, shall be given value as of the next day.

7.03 Additional Payments

If there is a change in or introduction of any Applicable Law (whether or not having the force of law but of a kind which is intended to be generally complied with by banks) or in the interpretation thereof by any Governmental Authority charged with the administration thereof or by any court of competent jurisdiction, and as a result:

- (a) the Lender incurs a cost (which it would not otherwise have incurred) or becomes liable to make a payment (calculated with reference to the Obligations) with respect to continuing to provide or maintain the Term Loan Facility for the Borrower hereunder (other than a tax such as a capital or franchise tax or a tax imposed on the income of the Lender);
- (b) any reserve, special deposit or similar requirement is imposed or increased with respect to the Term Facility increasing the cost thereof to the Lender; or
- (c) the Lender suffers or will suffer a reduction in the rate of return on its overall capital (other than a reduction by reason of any increase in the taxes referred to in (a) above) as a result of the amount of the capital that the Lender is required to maintain being increased or of any change in the manner in which the Lender is required to allocate its resources;

then the Borrower shall, upon receipt of written notice from the Lender, pay to the Lender such amount as will compensate the Lender for and will indemnify the Lender against such increases in cost or reductions of rate of return, accruing from and after the date which is fifteen (15) days after receipt of

such notice. The notice issued by the Lender shall set out the amount and basis for the amount of such additional payment required, and shall be conclusive and binding absent manifest error. The Lender shall be entitled to use averages and estimates in preparing any such notice.

7.04 Taxes and Withholding Tax Gross-Up

- (a) All principal, interest, fees, costs and other amounts due hereunder shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (other than taxes in respect of the net income or capital of the Lender) imposed or levied by or on behalf of any Governmental Authority having the power to tax. If any such withholding or deduction is required by law, the Borrower shall pay all additional amounts to the Lender as may be necessary in order that the net amount received by the Lender after such withholding or deduction shall equal the amount which would have been received by the Lender in the absence of such withholding or deduction. Without limiting the generality of the foregoing, if the Lender becomes liable for any taxes as a result of a payment having been made by the Borrower to it without withholding taxes having been deducted or withheld as required by Applicable Law, the Borrower shall indemnify and hold harmless the Lender for any such taxes required to be paid by the Lender and this indemnity shall survive the repayment of the Obligations and the termination of this Agreement.
- (b) To the extent that the Borrower does not pay any taxes required to be paid by it hereunder and the Lender is obligated to and pays any such taxes, the Borrower covenants and agrees to indemnify and hold harmless the Lender from and against any and all such payments made by the Lender together with any penalties, interest and other reasonable costs and expenses incurred in connection therewith whether or not such taxes were correctly or legally imposed on the Lender by the relevant Governmental Authority. A certificate as to the amount of such payment by the Borrower shall be conclusive evidence of the amount owing pursuant to this indemnify absent manifest error.
- (c) With respect to any taxes required to be paid by the Borrower in respect of payments by it hereunder as contemplated by this Section 7.04, the Borrower shall deliver to the Lender the original or a certified copy of receipt issued by the applicable Governmental Authority evidencing such payment as soon as practicable after the making of such payment (and in any event within 30 days after the making of such payment).

7.05 Work Fee

The Borrower shall pay to the Lender the Work Fee as a condition to the Advance.

7.06 Mandatory Repayments

- (a) Subject to any payments or repayments made or required to be made under the Senior Credit Agreement, the Borrower agrees to make the following Repayments (none of which shall be deemed a Prepayment) in respect of the Term Facility:

- (a) Corporate Status - It has been duly incorporated, amalgamated and/or organized and is validly subsisting and in good standing under the laws of its jurisdiction of organization.
- (b) Power and Authority - It has full corporate power, authority and capacity to enter into and to perform all its obligations contemplated by this Agreement (in the case of the Borrower) and the other Loan Documents to which it is a party. The consummation of the transactions contemplated by this Agreement, execution and delivery to the Lender of the Loan Documents to which it is a party, and compliance with the terms and conditions of this Agreement and the other Loan Documents to which it is a party (i) will not conflict with, result in a breach of, or constitute a default under, its charter documents, by-laws or any agreement among its shareholders, or result in a breach of, default under or the creation of any Lien on its properties under, any Material Agreement and (ii) does not require the consent or approval of any Person which has not been obtained.
- (c) Authorization and Enforceability of Documents - It has taken or caused to be taken all necessary action to authorize, and has duly executed and delivered this Agreement (in the case of the Borrower) and the other Loan Documents to which it is a party; and there are no provisions in any shareholder agreement or other constating documents (including a limited partnership agreement, as applicable) which restrict or limit its powers to borrow money, provide Guarantees or grant security. Each of the Loan Documents to which it is a party constitutes a legal, binding and valid obligation enforceable against it in accordance with the terms subject to (i) the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization and other similar laws affecting creditors' rights generally; and (ii) the extent that equitable principles may limit the availability of certain remedies including remedies of specific performance and injunctive relief, which equitable remedies may only be granted in the discretion of a court.
- (d) Approvals; Licences, etc. - It has the corporate power to own or lease its property and to carry on its business as now conducted by it. It is conducting its business in material compliance with all Applicable Law of each jurisdiction in which it carries on business and is duly licenced, registered and qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it or the property owned or leased by it make such qualification necessary, and all such licences, registrations and qualifications are valid and subsisting and in good standing.
- (e) Corporate Structure - Schedule 8.01(e) contains a true and complete list of the Companies and all Related Persons, indicating for each Company its issued and outstanding capital or partnership units, registered shareholders or unit holders (and whether such capital or units are voting or non-voting), jurisdiction of incorporation or organization registered and/or chief executive office, principal place of business, locations at which it has places of business and all jurisdictions (including address locations) in which any of its property or assets are located. Schedule 8.01(e) also contains a true and complete list of the Companies and all Related Persons, as such Companies will exist immediately after (a) the Target Acquisition and (b) the Borrower/Target Amalgamation. As at the date of this Agreement, no Company owns any equity interest or ownership interest in any person which is not listed on Schedule

8.01(e). There are no agreements or restrictions which in any way limit or restrict any transfer of its shares or partnership units, as applicable or enforcement by the Lender of any Security in respect thereof (save and except for any applicable private share transfer restrictions).

- (f) Ownership of Assets; Specific Permitted Liens - It owns, possesses and has a good and marketable title to its property, assets and undertaking (including any Owned Properties) free and clear of any and all Liens except for Permitted Liens; and it has no commitment or obligation (contingent or otherwise) to grant any Liens except for Permitted Liens. Schedule 8.01(f) attached hereto contains a true and complete list of the Specific Permitted Liens affecting such Company and its Subsidiaries as at the date of this Agreement. No event has occurred which constitutes, or which with the giving of notice, lapse of time or both would constitute, a material default under any said Specific Permitted Lien. Except for the Shareholder Agreement and employee stock options outstanding or to be issued in the future, no Person has any agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, including convertible securities, warrants or convertible obligations of any nature, for the purchase of any of its properties or assets out of the ordinary course of business or for the purchase, subscription, allotment or issuance of any its debt or equity.
- (g) Owned Properties - Schedule 8.01(g) attached hereto contains a true and complete list of its Owned Properties.
- (h) Leased Properties - Schedule 8.01(h) attached hereto contains a true and complete list of its Leased Properties.
- (i) Material Agreements - Schedule 8.01(i) attached hereto contains a true and complete list of all Material Agreements to which it is a party and a description of the nature of each said Material Agreement. Each said Material Agreement is in good standing in all material respects and in full force and effect; and neither it nor, to its knowledge, any of the other parties to such agreements is in breach in any material respect of any of the material terms, covenants or provisions contained therein; and no event has occurred which constitutes or which with the giving of notice, lapse of time or both would constitute a material default by it under or in respect of any such agreement.
- (j) Intellectual Property - It possesses all licences, franchises, permits, registrations, patents, patent applications, trademarks, trademark applications, trade names, trade name rights, service marks, service mark rights, copyrights and other forms of intellectual property (collectively "**Intellectual Property**") which are material to the conduct of its businesses as now conducted; and it owns and possesses or has the right to use such Intellectual Property and is not in violation of any valid rights of others with respect thereto. Attached as Schedule 8.01(j) is a complete list of all registered Intellectual Property of each of the Companies. The business carried on by it does not infringe the Intellectual Property of any other Person. It owns or licences, free of adverse claim, all material Intellectual Properties by and in connection with its business and any licences comprising the Intellectual Property are in good standing.

- (k) Insurance – It maintains all insurance coverages required to be maintained by and in accordance with the provisions of this Agreement. In the last three years no insurance policy has been cancelled by the insurer and no insurer has refused to renew any insurance coverage.
- (l) Labour Agreements - It has no contracts with any labour union or employee association and it has not made any commitments to or conducted negotiations with any labour union or employee association with respect to any future agreements and it is not aware of any current attempts to organize or establish any such labour union or employee association. It has experienced no work stoppages or strikes (legal or otherwise) in the three (3) years preceding the date of this Agreement. There are no material claims or grievances, pending or threatened, against it by any of its employees other than employee grievances arising in the ordinary course of business which are not, in the aggregate, material.
- (m) Pension Plans – No Pension Plan has been established by or in respect of any Company.
- (n) Applicable Law/Environmental Laws – It is in compliance in all material respects with all Applicable Law. It is in compliance in all material respects with all Requirements of Environmental Law. Except as disclosed in Schedule 8.01(n) attached hereto, all Hazardous Materials situated in, on or under any Owned Properties, Leased Properties or any other lands or upon which it carries on business (provided that with respect to Hazardous Materials situated on Leased Properties or lands not owned by it, such representation is made to the best of its knowledge, without independent investigation) have been maintained in material compliance with all Requirements of Environmental Law. There are no legal or administrative proceedings, investigations, claims or violation notices threatened or pending against it with respect to the presence on or under, or the discharge, emission, spill, radiation or disposal into or upon any land, the atmosphere, or any watercourse or body of water, of any Hazardous Material or in respect of Requirements of Environmental Law; nor are there any matters under discussion between it and any Governmental Authority relating thereto; and there is no factual basis for any such proceedings, investigations or claims.
- (o) Financial Statements – For and in respect of the Borrower, the Target and KKP, the audited financial statements in connection with their respective most recently completed two (2) fiscal years and their respective unaudited consolidated financial statements for the nine (9) month period ended as of June 30, 2011 delivered to the Lender have been prepared in accordance with GAAP on a basis which is consistent with previous fiscal years and fiscal quarters and present fairly:
 - (i) its assets, liabilities (whether accrued, absolute, contingent or otherwise) and its financial condition as at the dates therein specified; and
 - (ii) its earnings and results of its operations during the periods covered thereby; provided, however, the financial statements for the nine (9) month period ended as of June 30, 2011 lack footnotes and other presentation items required by GAAP and are subject to normal year end audit adjustments (which will not be material).

In connection with the delivery of the financial statements for the Target and KKP, the Borrower's representation contained in this Section 8.01(o) is made to the best of the knowledge of the Borrower after due inquiry. As of the date of this Agreement, since the date of the most recent financial statements of the Target and KKP provided to the Lender, no Material Adverse Change has occurred (or would be deemed to have occurred if the Target was deemed to be a Subsidiary of the Borrower prior to the completion of the Target Acquisition).

- (p) No Undisclosed Liabilities – Other than as listed in Schedule 8.01(p), to its knowledge after due inquiry, no Company has any liabilities of any kind whatsoever, whether or not accrued and whether or not determined or determinable, other than:
 - (i) liabilities disclosed on, reflected in or provided for in its said financial statements;
 - (ii) liabilities owing to the Vendor pursuant to the Target Purchase Agreement;
 - (iii) liabilities incurred in the ordinary course of business since the date of its said financial statements; and
 - (iv) liabilities disclosed or referred to in this Agreement.
- (q) Financial Information - All financial information relating to it which has been delivered to the Lender is complete and accurate in all material respects and there has been no Material Adverse Change in its financial position or operations since the date of its most recent financial statements provided to the Lender.
- (r) No Guarantees - It is not obligated under any Guarantees except in favour of the Lender and the other Guarantees listed on Schedule 8.01(r).
- (s) Tax Returns - It has duly and timely filed all tax returns required to be filed by it and has paid all taxes on or before the date such taxes are due and payable and has paid all assessments and re-assessments and all other taxes, charges, penalties and interest due and payable by it on or before the date hereof, except to the extent that it is diligently contesting any such taxes, assessments, charges or levies in good faith and has established reserves satisfactory to the Lender; and there are no actions, suits, proceedings, investigations or claims threatened or, to the knowledge of any Company after due inquiry, pending against it in respect of taxes, governmental charges or assessments or any matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments asserted by any such Governmental Authority.
- (t) Statutory Liens - It has remitted on a timely basis (and in any event not more than two weeks after the due date thereof) all amounts which are or may become subject to Statutory Liens, including for greater certainty all amounts required to be withheld in respect of employee wages and salaries (including withholdings relating to income tax, employment insurance, Canada Pension Plan or other applicable contributions), and amounts payable in respect of goods and services tax.

- (u) No Litigation/Default in Judgements – There are no legal proceedings pending, or to its knowledge after due inquiry threatened against it, before any court or administrative agency of any country which if determined adversely to its interest would not be fully covered by insurance or which in the aggregate exceed \$250,000 in claims, or which, could reasonably be expected to cause a Material Adverse Change, and it is not aware of any existing grounds on which any such legal proceedings might be commenced with any reasonable likelihood of success. It is not in default with respect to any judgement, order, injunction, decree or award of any arbitrary, court or Governmental Authority.
- (v) Certain Events – No event has occurred which (i) constitutes a Default or an Event of Default or (ii) since September 30, 2010 has caused or could reasonably be expected to cause a Material Adverse Change.
- (w) No Adverse Information - It is not aware of and has not withheld from the Lender any information or any other matter of a material nature which has been requested by the Lender in connection with the negotiations and consummation of this Agreement.
- (x) Terms of Agreements – It is not in breach of any agreement which would reasonably be expected to cause a Material Adverse Change.
- (y) Fiscal Year – The Fiscal Year end for the Borrower is September 30 and the Fiscal Year end of each of the Target and KKP is September 30. The Fiscal Year end of the Amalgamated Borrower is and shall be September 30 (this sentence shall automatically supercede and replace the immediately preceding sentence in Section 8.01(y) immediately upon completion of the Borrower/Target Amalgamation).
- (z) Permitted Debt – It has not incurred or agreed to incur any Total Funded Debt other than as specifically permitted to be incurred in accordance with Section 9.02(a) below.
- (aa) Consents – All consents and approvals from third parties (including (i) any Governmental Authority or (ii) parties to any Material Agreements) necessary for the Borrower, the Target and KKP to enter into and perform their respective obligations in connection with the Target Acquisition have been obtained, and the completion of the Target Acquisition will not violate any Applicable Law or any agreements to which the Borrower, the Target or KKP is a party.
- (bb) Borrower Liabilities – As of the date of this Agreement and the date of the Target Acquisition, the Borrower has no assets other than cash and the capital stock which the Borrower owns in the Target, and the Borrower is not indebted to any Person for any indebtedness, liabilities or obligations, direct or indirect, absolute or contingent, except for expenses related to the Target Acquisition and the Borrower/Target Amalgamation and the Borrower has not granted any Liens against any of its property, assets or undertaking.
- (cc) Transactions with Related Persons – It is not a party to any contract, commitment or transaction (including by way of loan) with any Related Person thereto which contains any terms which are not commercially reasonable.

of notice, passage of time or both, would constitute a material default under any Permitted Lien;

- (e) Preservation of Corporate Existence - maintain its corporate existence, preserve its rights, powers, permits, licences, privileges, franchises and goodwill, and exercise any rights of renewal or extensions of any leases, licences, concessions, franchises or any other rights whatsoever which are necessary or material to the conduct of its business and carry on and conduct its business in a proper and efficient manner so as to protect its property and the earnings, income, rents and profits of its business; and not materially change the nature of its business;
- (f) Payment of Taxes, etc. - pay and discharge promptly, when due (i) all taxes, assessments and governmental charges or levies lawfully imposed upon it or upon its property, except to the extent that it is diligently contesting any such taxes, assessments, charges or levies in good faith and has established reserves satisfactory to the Lender; and (ii) all amounts which are or may become subject to Statutory Liens except to the extent being contested in good faith and in respect of which reserves satisfactory to the Lender have been established;
- (g) Maintenance of Insurance - obtain from financially responsible insurance companies and maintain public liability insurance, all-risks property insurance (including coverage for fire damage) on a replacement cost basis, business interruption insurance, product liability insurance, insurance in respect of such other risks as the Lender may reasonably require from time to time; all of which policies of insurance shall be in such amounts as may be reasonably required by the Lender and shall include a standard mortgage clause approved by the Insurance Bureau of Canada); and cause the interest of the Lender to be noted as second mortgagee and loss payee on such policies (except public liability insurance) and provide to the Lender certificates of insurance and certified copies of such policies from time to time upon request; all insurance coverages maintained by it shall be satisfactory to the Lender, acting reasonably, and the Lender shall be endorsed as second mortgagee and loss payee on all insurance policies (except in respect of liability insurance in which case the Lender shall be named as an additional insured); it shall deliver or cause to be delivered to the Lender certified copies of policies of insurance which are required to be kept in force hereunder (the "Insurance") or certificates of insurance in connection therewith and thereafter, it shall deliver to the Lender certified copies or certificates of the Insurance as the Lender may reasonably request from time to time; each policy of Insurance shall contain a provision that it will not in any way be materially changed or cancelled without at least thirty (30) days' prior written notice to be given by the insurer to the Lender and such policies shall contain an appropriate form of mortgage endorsement satisfactory to the Lender; if it defaults in insuring its property and assets as required hereunder or in so delivering any certificates or policies of Insurance, the Lender (without any obligation to do so) after ten (10) days' notice (and at any time after the occurrence of a Default), at its option, may effect such Insurance and pay the premiums therefor in which case it shall reimburse the Lender for any premium so paid with interest thereon to be calculated at the rate per annum at such time equal to interest to be paid by the Borrower on the Term Facility, all of which shall be payable upon demand and until paid shall form part of the Obligations and shall be secured by the Security

- (h) Compliance with Laws - comply in all material respects with all Applicable Law (specifically including all Requirements of Environmental Law) and obtain and maintain in good standing all material leases, licences, permits and approvals from any and all Governmental Authorities required in respect of its operations;
- (i) Maintenance of Properties - maintain and preserve all of its material properties which are used in the conduct of its business in good working order and condition, ordinary wear and tear excepted;
- (j) Keeping of Books - keep books of record and account in accordance with GAAP in effect from time to time, applied in a consistent manner from period to period;
- (k) Environmental Information - provide to the Lender from time to time (i) such information and further assurances as the Lender may reasonably require concerning the nature of the Hazardous Materials disclosed in Schedule 8.01(n) attached hereto in order to establish to the Lender's satisfaction, acting reasonably, that such Hazardous Materials are being stored and handled prudently and in compliance with all Requirements of Environmental Law; and (ii) a copy of any written notice, claim or other proceeding or investigation against or in respect of it or its property and assets with respect to any Requirements of Environmental Law received by it, except for routine inspections;
- (l) Transactions With Related Persons - except for the transactions and agreements contemplated in connection with the Target Acquisition (including the Management Fee Agreement), conduct all transactions with Related Persons, to the extent permitted by the terms of the Loan Documents, on terms that are fair and reasonable and no less favourable to it than it would obtain in any comparable arm's length transaction with a Person that is not a Related Person;
- (m) Landlord Agreements - prior to entering into any new leases of real property, obtain a Landlord Agreement from the landlords of such Leased Property;
- (n) Future Owned Properties - notify the Lender in writing prior to the acquisition by it of any Owned Properties after the date of this Agreement, and concurrently with the completion of such acquisition transaction, execute and deliver Security to the Lender and cause same to be registered to ensure that the Security shall at all times constitute a first priority Lien against such future Owned Properties together with such other supporting documents and legal opinions, all as contemplated by Article X;
- (o) Notice of Material Litigation - deliver or cause to be delivered appropriate notice of (a) any claims or proceedings which are commenced and which involve, in the aggregate, an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) or the U.S. Dollar Equivalent Amount thereof and (b) any judgment or order in respect of which it is obligated to pay an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) or the U.S. Dollar Equivalent Amount thereof;
- (p) Financial Analysis - ensure that all financial analysis and statements delivered to the Lender in connection with or required by the terms of this Agreement are prepared in good faith based on assumptions believed by it to be reasonable;

- (q) Further Assurances – provide the Lender with such further information, financial data, documentation and other assurances as it may reasonably require from time to time in order to ensure ongoing compliance with the terms of this Agreement;
- (r) Payment of Obligations – pay its obligations, including tax liabilities, that, if not paid, could reasonably be expected to result in a Material Adverse Change before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Change;
- (s) Intellectual Property –
 - (A) maintain all necessary registration and applications for registration for any Intellectual Property which is material for its business in good standing, including without limitation paying all fees and making all such filings as may be required from time to time;
 - (B) notify the Lender if it knows, or has reason to know, of any application or registration relating to any Intellectual Property material to the business of any of the Companies that may expire, become abandoned or dedicated to the public domain, or of any material adverse determination or development (including the institution of, or any such determination in, any proceeding in the Canadian Intellectual Property Office, the United States Patent and Trade Mark Office or any court or tribunal in any country) regarding the ownership by any Company of any material Intellectual Property or its right to register the same or to keep and maintain the same; and
 - (C) report to the Lender registration, or any application for the registration, of any Intellectual Property material to the business of the Companies taken as a whole with any intellectual property office within 30 days after the last day of the Fiscal Quarter of the Borrower in which such application occurs (whether any such application is made by itself or through any agent, employee, licensee or designee);
- (t) Amalgamated Borrower Security – in the event that for any reason whatsoever, the Borrower/Target Amalgamation is not completed on the date on which the initial Advance is made by the Lender to the Borrower hereunder, then in such case, the Borrower shall cause each of the Target and KKP to deliver to the Lender such additional documentation as the Lender may reasonably require including certified resolutions of the board of directors of each of the Target and KKP and opinion letters from the law firms for each of the Target and KKP, all in form and substance satisfactory to the Lender acting reasonably; and
- (u) Board of Director Observer Status and Reports – the Borrower will permit a representative of the Lender to attend all meetings of the Borrower's board of directors (and provide all required notices of board meetings to the Lender), and will provide copies of all reports to the Lender (in its capacity as an observer on the Borrower's

board of directors) which are provided from time to time to the members of the board of directors, and shall reimburse the Lender for all reasonable expenses incurred by the Lender in attending meetings of the board of directors in its capacity as an observer.

9.02 Negative Covenants

The Borrower hereby covenants and agrees with the Lender that it will not, and will ensure that each of its Subsidiaries does not, without the prior written consent of the Lender:

- (a) Incur Liabilities - create or incur any Total Funded Debt except for (i) the Obligations, (ii) unsecured indebtedness incurred in the ordinary course of business to suppliers of goods and services; (iii) indebtedness secured by Permitted Liens; and (iv) the Senior Obligations;
- (b) Liens - grant or permit to exist any Lien in respect of any portion of its property or assets, except Permitted Liens;
- (c) Guarantees - become liable under any Guarantees, except in favour of the Lender and the Senior Lender, and except for Guarantees listed on Schedule 8.01(r) delivered prior to the date of this Agreement;
- (d) Disposition of Assets - directly or indirectly sell or otherwise dispose of any of its assets in an amount greater than \$250,000 in the aggregate in any Fiscal Year, except that (i) inventory may be sold in the ordinary course of business, (ii) surplus or obsolete assets may be sold if replaced with similar assets having an equal or greater value, (iii) damaged or obsolete assets may be disposed of in the ordinary course of business and (iv) assets may be sold in compliance with Section 7.06(a)(ii) of this Agreement up to the maximum aggregate amount of \$500,000 per Fiscal Year;
- (e) Corporate Changes - except for the Borrower/Target Amalgamation, (i) liquidate or dissolve or enter into any consolidation, merger, amalgamation, partnership, joint venture or other combination; or (ii) enter into any transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other Person, whether by way of reconstruction, reorganization, recapitalization, consolidation, amalgamation, merger, transfer, sale or otherwise;
- (f) Related Person Transactions - enter into any contract with any Related Person for the sale, purchase, lease or other dealing in any property or services, except: (i) in connection with a transaction involving the purchase of goods or services, at an amount not exceeding the fair market value of such goods or services; (ii) in connection with a transaction involving the sale or provision of goods or services, at an amount not less than the fair market value of such goods or services; and (iii) the transactions and agreements contemplated in connection with the Target Acquisition (including the Management Agreement);
- (g) Purpose - use or permit the Advance to be used for any purpose other than the purpose specifically set out herein;
- (h) Nature of Business - materially change the nature or operation of its business;

- (i) Amendments to Senior Loan Documents - amend the terms of any of the Senior Loan Documents;
- (j) Payments of Subordinated Debt - make any payment to any Person on account or in respect of any Subordinated Debt unless (i) at the time of any such payment, no Default or Event of Default has occurred and is continuing and (ii) no Default or Event of Default would be caused or could reasonably be expected to occur as a result of the making of any such payments, and provided further that it shall not make any payment on account or in respect of any Subordinated Debt except to the extent specifically permitted in accordance with the terms of the applicable subordination agreement delivered in favour of the Lender in respect of such Subordinated Debt;
- (k) Sale and Leaseback Transactions - enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or capital assets by it or any of its Subsidiaries that is made on commercially reasonable terms;
- (l) Amendment of Material Documents - amend, modify or waive any of its rights under its certificate of incorporation, articles, by-laws, operating, management or partnership agreement or other organizational documents, in each case, to the extent any such amendment, modification or waiver could reasonably be expected to be adverse to the Lender;
- (m) Pension Plan - establish any Pension Plan;
- (n) Material Changes -
 - (i) change its name; or
 - (ii) change the location of its chief executive office or domicile from that set out in Part I of Schedule 9.02(n) without providing the Lender with thirty (30) days' prior written notice thereof; or
 - (iii) other than (A) assets up to a maximum aggregate amount of \$50,000 at any one location with a maximum aggregate amount for all locations of \$200,000, (B) inventory, sold in the ordinary course of business to customers of a Company, in transit to such customers; or (C) inventory up to a maximum aggregate amount of \$1,000,000 at any one or more sub-contractors of the Companies, keep tangible assets at any location other than the location(s) listed in Parts I and II of Schedule 9.02(n) without providing the Lender with thirty (30) days' prior written notice thereof;
- (o) Operating Leases - enter into operating leases in an aggregate amount greater than \$800,000 at any time; and

- (p) Loans - make or permit to exist any loans or advances to any Person, except loans to its employees that in the aggregate do not exceed \$50,000 at any time.

9.03 Financial Covenants

The Borrower hereby covenants and agrees with the Lender that it will:

- (a) Financial Ratios - maintain on a consolidated basis, the financial ratios set out below at all times (other than the ratio set out in 9.03(a)(iii) below which is to be maintained only on the date of the initial Advance hereunder), based on a trailing twelve month basis (for greater certainty, for each month from the initial Advance hereunder through September 30, 2012, in respect of calculating the Fixed Charge Coverage Ratio, the Total Funded Debt Service from the initial Advance hereunder through September 30, 2012 will be annualized to give proforma effect to thereto):
- (i) the Total Funded Debt to EBITDA Ratio at (A) 4.00:1 or less at the date of the Advance to and including March 30, 2012, (B) 3.75:1 or less from March 31, 2012 to and including September 29, 2012, (C) 3.50:1 or less from September 30, 2012 to and including September 29, 2013, (D) 3.25:1 or less from September 30, 2013 to and including September 29, 2014, (E) 2.75:1 or less from September 30, 2014 to and including September 29, 2015, (F) 2.50:1 or less from September 30, 2015 to and including September 29, 2016 and (G) 2.00:1 or less for all calendar months thereafter;
 - (ii) Fixed Charge Coverage Ratio of (A) 1.10:1 or greater as at the date of the Advance to and including September 29, 2012 and (B) 1.20:1 or greater for all calendar months thereafter commencing with the calendar month of September 2012; and
 - (iii) the ratio of (x) pro forma Total Funded Debt to (y) pro forma Total Funded Debt plus pro forma shareholder's equity of the Borrower at the date of the initial Advance hereunder at 60% or less at the date of the initial Advance hereunder.
- (b) Capital Expenditures - not make Unfunded Capital Expenditures or permit its Subsidiaries to make Unfunded Capital Expenditures or incur or assume any debt or liability therefor without the prior written consent of the Lender; except that if no Default or Event of Default has occurred and is continuing, or would be caused by such transaction (i) Unfunded Capital Expenditures in an aggregate amount not exceeding \$1,000,000 for the period from the date hereof until September 30, 2012 and (ii) Unfunded Capital Expenditures in an aggregate amount not exceeding an amount to be determined between the Lender and the Borrower based on the Borrower's annual business plan delivered by the Borrower to the Lender hereunder, but for greater certainty, subject to the Lender's consent in any event for each Fiscal Year of the Amalgamated Borrower ending September 30, 2013 and thereafter (for the purposes of this Section 9.03(b), any unused permitted Unfunded Capital Expenditure amount in any Fiscal Year may not be carried over to any future Fiscal Year).
- (c) Distributions - not make any Distributions or permit its Subsidiaries to make any Distributions, except that prior to the Acceleration Date, the following Distributions may

be made if both before and immediately after each such Distribution no Event of Default has occurred and is continuing:

- (i) each Company may make Distributions to the extent that such Distributions constitute the payment of bonuses, directors' fees (not exceeding \$50,000 per Fiscal Year) or other remuneration or compensation to its employees, officers or directors in the ordinary course of its business and are in accordance with the Borrower's historical practice (including employee termination and severance payments) and reimbursement for reasonable out-of-pocket costs and expenses incurred by such employees, officers or directors in the ordinary course of carrying out their respective duties;
 - (ii) the Borrower may pay Management Fees to River up to the maximum aggregate amount per Fiscal Year equal to \$210,000 and all reasonable out-of-pocket expenses incurred by River in connection with the provision of services to the Borrower pursuant to the Management Agreement (the "**Out-of-Pocket Expenses**"), subject to and only as expressly permitted by the subordination agreement dated as of the date hereof between River and the Lender; provided that, the Borrower is and shall remain in compliance with all financial covenants contained herein both before and after the making of the proposed payment; provided further that, the payment of Out-of-Pocket Expenses up to the maximum aggregate amount of \$25,000 to River shall also be permitted following the occurrence of an Event of Default; provided further that, any Management Fees or Out-of-Pocket Expenses that accrue but are not paid by the Borrower to River because such payment is prohibited by this Section 9.03(c)(ii) may be paid after the Default or Event of Default causing such prohibition is cured or waived to the extent such payment otherwise complies with the terms of this Section 9.03(c)(ii) and the Borrower shall remain in compliance with all financial covenants contained herein after the making of such proposed payment;
 - (iii) Borrower may make Distributions in respect of the redemption or purchase of shares or partnership units of a terminated employee or director up to the maximum aggregate amount of \$250,000 each Fiscal Year;
 - (iv) Borrower may make Distributions subject to and only as expressly permitted by the intercreditor agreement dated as of the date hereof between the Lender, the Senior Lender and the Borrower; and
 - (v) each Subsidiary of a Company may make other Distributions to such Company, provided that the Company to whom such Distribution is made has delivered Security in form satisfactory to the Lender.
- (d) Investments - not make, maintain, incur or acquire any Investments or permit its Subsidiaries to make, maintain, incur or acquire any Investments, except that the following Investments may be made, maintained, incurred or acquired if both immediately before and immediately after each such Investment no Default or Event of Default has occurred and is continuing:

- (i) any Company may make an acquisition of all of the voting securities of any Person or all or substantially all of the assets of any Person, provided that (A) within 10 days of such Investment, (y) any Liens previously granted by the entity being acquired or encumbering the assets being acquired have been discharged, and (z) any and all guarantees, Security and other ancillary documents and legal opinions required by the Lender in accordance with Article X hereof have been delivered and granted in favour of the Lender, all in form and substance satisfactory to the Lender, (B) the assets or entity being purchased must (x) be in a similar type of business as the Borrower, (y) be located in Canada or the United States and (z) contribute positive EBITDA for the Borrower, (C) the acquisition must not be hostile, (D) the aggregate consideration of any such Investment shall not exceed \$250,000 or the Equivalent Amount thereof individually and \$250,000 or the Equivalent Amount thereof in the aggregate each Fiscal Year, (E) if it is an entity being acquired, the Borrower must obtain Control of such entity, and (F) if real property is being acquired as part of the Investment, the Borrower shall have delivered to the Lender a recent Phase I environmental assessment conducted by a qualified environmental consultant, in form and substance satisfactory to the Lender;
- (ii) Investments up to the maximum aggregate amount of \$100,000 in any Fiscal Year;
- (iii) Investments may be made in direct obligations of Canada or the United States of America, including federal, provincial or state obligations, with maturities of one year or less from the date of acquisition of the investment, provided that if required by the Lender, the Company making such Investment shall provide such additional items of Security as the Lender may require in order that such investments shall be specifically pledged to the Lender; and
- (iv) Investments may be made in certificates of deposit issued by the Senior Lender.

For greater certainty, the Borrower shall not make or maintain any Investment or permit its Subsidiaries to make or maintain any Investment in any Person that is a hostile acquisition.

9.04 Reporting Requirements

During the term of this Agreement:

- (a) the Borrower shall, as soon as practicable and in any event within one-hundred and twenty (120) days after the end of each Fiscal Year, cause to be prepared and delivered to the Lender the annual audited consolidated (if applicable) financial statements for the Borrower and for each of the Borrower's Subsidiaries (if any), prepared on a consolidated and unconsolidated basis, including an unqualified audit report, together with all notes thereto, consisting in each case of a balance sheet, statement of changes in financial position and statements of earnings and retained earnings together with detailed comparative figures for the previous Fiscal Year, related management discussion and analysis and a report including calculations of financial covenants and a Compliance Certificate as described in Section 9.04(c);

- (b) the Borrower shall, as soon as practicable and in any event within forty-five (45) days after the end of each Fiscal Quarter, cause to be prepared and delivered to the Lender, quarterly interim unaudited financial statements of the Borrower as at the end of such Fiscal Quarter, consisting in each case of at least a balance sheet, income statement and statement of changes in financial position, together with a management discussion and analysis of results and comments on variances to budget, accompanied by a Compliance Certificate from the Chief Executive Officer, Chief Financial Officer, Controller or Secretary of the Borrower confirming compliance with the financial covenants contained herein, and a schedule detailing the current order book;
- (c) the Borrower shall, as soon as practicable and in any event within thirty (30) days of the end of each month, cause to be prepared and delivered to the Lender, the interim unaudited financial statements of the Borrower and for each of the Borrower's Subsidiaries (if any), prepared on a consolidated and unconsolidated basis (if applicable), prepared in accordance with GAAP as at the end of such month, consisting in each case of at least a balance sheet, income statement and statement of changes in financial position;
- (d) the Borrower shall, at least thirty (30) days prior to the start of each Fiscal Year, provide the Lender with the annual consolidated (if applicable) business plan of the Borrower to be completed on a monthly basis, including pro forma balance sheets, income statements, cash flow statements and Capital Expenditures (including capital leases) budget, anticipated tax liabilities, significant assumptions and projected compliance ratios, in such form and with such detail as may be required by the Lender acting reasonably; the Borrower shall provide or cause to be provided to the Lender any subsequent revisions of the annual business plan as soon as practicable after any revisions are prepared; the Borrower shall cause the final form of the annual business plan for each Fiscal Year to be in form and substance satisfactory to the Lender, acting reasonably;
- (e) such additional information and documents as the Lender may reasonably request from time to time including reports, financial information or other information relating to the property and assets and the conduct of the business and affairs and financial position of each of the Companies and any or all reports provided by, or caused to be provided by, the Borrower to the Senior Lender.

ARTICLE X - SECURITY

10.01 Guarantee

The Borrower agrees to cause each of its Subsidiaries to deliver a Guarantee in respect of all present and future Obligations of the Borrower to the Lender.

10.02 Security to be Provided by the Borrower

Subject to the exceptions noted below, the Borrower agrees to provide, or cause to be provided, in favour of the Lender the security and other documents listed below which shall be held by the Lender as continuing security for the payment and performance of all present and future, direct and indirect

obligations of the Borrower to the Lender, including all its Obligations arising under this Agreement and the other Loan Documents:

- (a) a general security agreement granting a security interest over all present and future property, assets and undertaking (including without limitation Intellectual Property);
- (b) assignments of all policies of insurance in respect of the assets subject to the foregoing security, in such amounts and containing such terms and conditions as are acceptable to the Lender;
- (c) subordination agreements in respect of any debt of the Borrower which is intended to constitute Subordinated Debt of the Borrower;
- (d) assignment of rights under all Material Agreements;
- (e) environmental checklists and indemnities by the Borrower for each of its Owned Properties and Leased Properties;
- (f) a Landlord Agreement in respect of each of its Leased Properties; and
- (g) such other security from any Company or with respect to the assets of any Company as may be reasonably required by the Lender from time to time.

10.03 Guarantees and Security from Subsidiaries

The Borrower agrees to cause its Subsidiaries to provide to the Lender: (i) a Guarantee in respect of all present and future obligations of the Borrower to the Lender (each such Guarantee to be in an unlimited amount if permitted under applicable Law, otherwise such Guarantee shall be limited to the maximum amount which will not contravene applicable Law); and (ii) security of the same nature required to be provided by Borrower hereunder. Such Guarantees and security shall be provided by those Subsidiaries in existence on the date of this Agreement concurrently with the execution and delivery of this Agreement; and any Person which becomes a Subsidiary after the date of this Agreement shall provide such Guarantee and security either concurrently with becoming a Subsidiary or within ten (10) days after the date of becoming a Subsidiary, such determination to be made by the Lender in its discretion based on the facts giving rise to the creation or acquisition of such new Subsidiary.

10.04 General Provisions re: Security and Opinions

For greater certainty, "**Security**" includes all security agreements, Guarantees and other documents mentioned in Sections 10.01, 10.02 and 10.03, and all other documents and agreements delivered by the Companies or others to the Lender from time to time as security for the payment and performance of the obligations of the Borrower to the Lender, respectively, and the Liens constituted by the foregoing. The Security shall be in form and substance satisfactory to the Lender. The Companies shall also cause to be delivered to the Lender the opinions of the solicitors for the Companies and other Persons providing such Security (together with opinions from agents in other jurisdictions as applicable) with respect to corporate status of such Persons and their authorized and issued capital, the due authorization, execution, delivery and enforceability of the Security, and the registration of the Security and the results of all applicable searches; all such opinions to be in form and substance satisfactory to the Lender and its counsel.

10.05 Registration and Priority of Security

The Security shall be registered where necessary or desirable in the opinion of the Lender to record and perfect the security interests contained therein. The Liens constituted and created by the Security shall be first ranking/priority Liens subject to Liens held by the Senior Lender and unless the Lender otherwise specifically consents in writing to any Permitted Liens ranking in priority to the Liens granted to the Lender in connection therewith, any such consent to be made by the Lender in its discretion.

10.06 After-Acquired Property; Further Assurances

The Borrower agrees to execute and deliver from time to time, and to cause its Subsidiaries to execute and deliver from time to time, all such further documents and assurances as may be reasonably required by the Lender from time to time in order to provide the Security contemplated hereunder including as a result of the acquisition by any Company of any property or assets.

ARTICLE XI - CONDITIONS FOR ADVANCE

11.01 Conditions for Advance

The Lender shall have no obligation to make the Advance until the following conditions shall have been performed and satisfied:

- (a) the representations and warranties set forth in Article VIII shall be true and correct in all material respects as at the date of the requested Advance, except as may have been consented to by the Lender in writing; and each Company shall have delivered a certificate to such effect in the form of the Compliance Certificate;
- (b) the Security shall have been executed and delivered (together with legal opinions from the solicitors for the Companies as contemplated by Section 10.04) and all registrations necessary or desirable in connection therewith shall have been made and the priority of the Liens constituted by or created under the Security shall be satisfactory to the Lender in its discretion;
- (c) no event shall have occurred and be continuing which constitutes a Default or Event of Default, nor shall the making of the Advance result in the occurrence of any such event;
- (d) the Lender shall have received favourable opinions of all applicable solicitors in form and substance satisfactory to it;
- (e) the Lender shall have received all officers' certificates and certified copies of constating documents and directors' resolutions concerning the due authorization, execution and delivery of this Agreement and the Security and such related matters as the Lender may reasonably require and confirmation of incumbency of officers and directors;
- (f) the Lender shall have received a certificate of status or similar certificates for the Companies providing Security, issued by their respective governing jurisdictions;

- (g) the Lender shall have received satisfactory evidence of the release and discharge of any Liens previously granted by the Companies providing Security, except for Permitted Liens;
- (h) if required by the Lender in its discretion, the Lender shall have received particulars of all Liens intended to remain outstanding as Permitted Liens, specifically including the assets encumbered by such security, the amounts due thereunder, and confirmation that the terms of such security are being complied with;
- (i) any approvals from any Governmental Authority or third party necessary or desirable in connection with this Agreement, the Security and the transactions contemplated therein shall have been given unconditionally and without containing any onerous terms;
- (j) the Borrower shall have complied with all covenants and all other obligations imposed upon it pursuant to this Agreement;
- (k) the Lender shall have received such additional evidence, documents or undertakings as it may reasonably require to complete the transactions contemplated hereby in accordance with the terms and conditions contained herein;
- (l) the Lender shall have received and confirmed its satisfaction with (i) the audited consolidated financial statements of the Target and KKP in respect of their respective 2008, 2009 and 2010 Fiscal Years, the unaudited consolidated financial statements of the Target and KKP in respect of their respective Fiscal Quarter ended June 30, 2011 and (ii) the pro forma balance sheet of Borrower after giving effect to the Target Acquisition and the Borrower/Target Amalgamation, together with a pro forma compliance certificate showing detailed financial covenant calculations in respect of the financial covenants set out in Section 9.03;
- (m) the initial pro-forma Total Funded Debt to EBITDA Ratio is not greater than 3.26:1 immediately prior to the initial Advance hereunder (to be evidenced in the Compliance Certificate on the Closing Date);
- (n) the Lender shall be satisfied that since the date of the most recent financial statements of the Borrower, the Target and KKP delivered to the Lender, there shall have occurred no Material Adverse Change in the business, operations, affairs or condition, financial or otherwise of any Company (or would be deemed to have occurred if the Target and/or KKP were deemed to be a Subsidiary prior to the completion of the Target Acquisition);
- (o) the Lender shall have received insurance certificates with respect to or certified copies of all applicable insurance policies with respect to the Companies and KKP;
- (p) the Lender shall have been provided with all information reasonably requested by and in connection with the transactions contemplated by this Agreement and the operations of the Borrower, the other Companies, the Target and KKP, including but not limited to quality of earnings, property and asset values, financial statements, projected business opportunities, compliance with Applicable Law and other related matters, and the Lender shall be satisfied with its due diligence in connection with same;

- (q) receipt by the Lender of all fees (including without limitation, the Work Fee) and expenses owing to the Lender and the Lender's legal counsel as required by the provisions of this Agreement or any other Loan Document;
- (r) the Lender shall be satisfied in its discretion with the ownership, management, organizational and legal structure of the Borrower and its Subsidiaries, and (after the Target Acquisition), the Target and KKP;
- (s) the Lender shall be satisfied with all terms and conditions of the Senior Loan Documents, the Senior Lender shall have entered into an intercreditor agreement satisfactory to the Lender and the Lender shall be satisfied that Senior Lender shall advance the proceeds of the Senior Loan Documents to the Borrower concurrently with the making of the Advance hereunder;
- (t) the Lender shall be satisfied in its discretion with the terms of the leases for each Leased Property;
- (u) the Lender shall be satisfied in its discretion with the terms and conditions of all Intellectual Property owned by the Companies, the Target and KKP and the terms and conditions of all Material Agreements of the Companies, the Target and KKP;
- (v) the Lender shall have been provided with all information reasonably requested in connection with the Target Acquisition (without limitation, the Lender shall be satisfied that the Borrower shall, on completion of the Target Acquisition, acquire title to all of the capital stock of the Target and indirectly KKP not currently owned by the Borrower, free and clear of all Liens and that the property and assets of each of the Target and KKP are and shall be free and clear of all Liens except for Permitted Liens) including due diligence relating to the operations of the Target and KKP, compliance by the Target and KKP with Applicable Law (including Environmental Law) and confirmation that all pension and employee benefit and arrangements (if any) of the Target and KKP are adequately established and funded;
- (w) the Lender shall be satisfied in its discretion with all agreements and matters relating to the Target Acquisition, including the Target Purchase Agreement and all ancillary documents to be delivered in connection therewith;
- (x) if the purchase price of the Target Acquisition payable to Vendors is greater than \$21,000,000, the Lender shall be satisfied in its discretion that any amount over \$21,000,000, shall be obtained by the Borrower by way of equity or Subordinated Debt;
- (y) the Lender shall be satisfied with all equity injections (in an amount of at least \$9,500,000, with no more than \$1,000,000 of such amount to be in the form of a share rollover), Senior Obligations or other monies to be received, directly or indirectly by the Borrower to permit it to fund the Target Acquisition;
- (z) the Target Acquisition shall be completed concurrently with the initial Advance hereunder to the satisfaction of the Lender;

- (aa) the Lender shall have received all necessary environmental compliance and disclosure indemnities;
- (bb) the Lender shall have received a satisfactory payout letter in respect of any existing debt (other than debt permitted by Section 9.02(a)) and a release document confirming that all security in respect of such debt shall be released effective immediately upon repayment thereof;
- (cc) the Lender shall have received all documentation and other information required by bank regulatory authorities under applicable "know-your-customer" and anti-money laundering rules and regulations;
- (dd) the Advance will not violate any order judgment or decree of any court or other Governmental Authority or any provision of Applicable Law relating to or affecting the Lender; and
- (ee) the Lender shall have received such other documents and information as the Lender may reasonably request.

11.02 Conditions Precedent - General Matters

The Lender shall have no obligation to extend the Advance unless all conditions precedent have been satisfied before or at such time. The conditions precedent are included for the exclusive benefit of the Lender and may be waived in writing in whole or in part by the Lender at any time.

ARTICLE XII - DEFAULT AND REMEDIES

12.01 Events of Default

The occurrence of any one or more of the following events, after the expiry of any applicable cure period set out below, shall constitute an event of default (an "Event of Default") under this Agreement:

- (a) the Borrower fails to pay any principal, interest, fees or other amounts owing to the Lender hereunder or pursuant to the other Loan Documents and, in the case of interest, fees or other amounts owing to the Lender, if such payment is not made within three (3) Business Days of the day on which such payment is due;
- (b) the Borrower fails to perform or comply with any covenant or obligation contained in Sections 9.01 (b), (d), (e), (o), (p), (r), (t) and 9.01(u), Section 9.02 and Section 9.03;
- (c) any Company fails to perform or comply with any covenants or obligations contained in this Agreement or in any other Loan Document other than referred to in Section 12.01(a) or Section 12.01(b) above and provided that such default is capable of being remedied, such default shall continue unremedied for fifteen (15) days from the earlier to occur of (i) the Lender providing notice to the Borrower or such other Company, as the case may be, of such default or (ii) the Borrower or such other Company, as the case may be, becoming aware of such default;

- (d) any Company fails to perform or comply in all material respects with any Requirement of Environmental Law unless such Company is indemnified under the Target Purchase Agreement for such failure;
- (e) any representation or warranty contained in this Agreement or any other Loan Document between the Company and the Lender is or becomes false or incorrect in any material respect;
- (f) (i) if any present or future indebtedness, liability or obligation of any Company or any Affiliate of the Borrower having a principal amount in excess of \$250,000 (or the Equivalent Amount thereof in U.S. Dollars) in the aggregate (A) becomes due and payable prior to its date of maturity by reason of occurrence of a default thereunder or (B) is not paid when demanded or due or within any applicable grace period originally provided therefor or within a reasonable period of time for demand loan repayments (as may be applicable), or (ii) if a default occurs under any loan document or Lien entered into or granted by any Company or Companies or any Affiliate of the Borrower in respect of which an amount in excess of \$250,000 or the Equivalent Amount thereof in U.S. Dollars in the aggregate is owing or secured thereunder and such default (after any applicable cure period) entitles the applicable lender or encumbrancer to accelerate payment of such debt or enforce its Lien;
- (g) (i) if any of the Senior Obligations (A) become due and payable prior to its date of maturity by reason of occurrence of a default thereunder or (B) is not paid when demanded or due or within any applicable grace period originally provided therefor, (ii) if the Senior Lender issues a Standstill Notice (as defined in the intercreditor agreement dated as of the date hereof between the Lender, the Senior Lender and the Borrower) to the Lender, (iii) if a default occurs under any loan document or Lien entered into or granted by the Borrower or any other Company in respect of the Senior Obligations and such default (after any applicable cure period) entitles the Senior Lender to accelerate payment of such debt or enforce its Lien;
- (h) any Company ceases to carry on its business; sells all or substantially all of its assets; commits an act of bankruptcy; becomes insolvent (as such term is defined pursuant to Insolvency Legislation; makes an assignment for the benefit of creditors, files a petition in bankruptcy or makes a proposal under Insolvency Legislation; admits the material allegations of any petition filed against it in any proceeding under Insolvency Legislation; commits an act of bankruptcy within the meaning of Insolvency Legislation; petitions or applies to any tribunal or court for the appointment of any receiver, trustee or similar liquidator of it or all or a substantial part of its assets; commences a proceeding pursuant to Insolvency Legislation; is wound-up, dissolved or liquidated or has its existence terminated unless in conjunction with a bona fide corporate reorganization not prohibited hereby in which a successor of the person will succeed to its obligations and enter into an agreement with the Lender to that effect or takes any action for the purpose of effecting any of the foregoing;
- (i) any petition shall be filed or other proceeding commenced in respect of any Company or any Affiliate of the Borrower or any portion of its property under any Insolvency Legislation; including a proceeding requesting an order approving a reorganization of

any Company or any Affiliate of the Borrower, declaring any Company or any Affiliate of the Borrower bankrupt, or appointing a receiver, trustee or liquidator of any Company or any Affiliate of the Borrower or of all or a substantial part of its assets, and (i) such Company or such Affiliate shall not in good faith be actively and diligently contesting and defending such proceeding in good faith and on reasonable grounds (provided further that in the opinion of the Lender acting reasonably, the existence of such proceeding does not materially adversely affect the ability of such Company or such Affiliate to carry on its business and to perform and satisfy its obligations under the Loan Documents) or (ii) such petition or proceeding shall not be abandoned, dismissed or permanently stayed within a period of ten (10) Business Days from the date of filing or commencement thereof;

- (j) a judgment or judgments for the payment of money in excess of \$250,000 or the Equivalent Amount thereof in U.S. Dollars in the aggregate (net of any amounts available for the satisfaction of such judgment pursuant to any enforceable contract of insurance) is obtained or entered against any Company or Companies or any Affiliate of the Borrower and remains unpaid for 60 days (provided that such judgment or judgments will constitute an "Event of Default" prior to the expiry of such 60 day period if such judgment or judgments are not being diligently appealed by such Company in good faith and on reasonable grounds);
- (k) any Person takes possession of any material property of any Company by way of or in contemplation of enforcement of security, or a distress, execution, garnishment or similar process is levied or enforced against any Company or any such property;
- (l) any Governmental Authority takes any action with respect to any Company or any material portion of its property, including any condemnation, seizure or expropriation of any property of any Company, which materially and adversely affects such Company or its financial condition, business or operations; and without limiting the generality of the foregoing, an item or items of property having a value in excess of \$250,000 or the Canadian Dollar Equivalent Amount thereof in the aggregate shall be deemed to be material;
- (m) if this Agreement or any of the other Loan Documents ceases to be enforceable in accordance with its terms or any Company terminates or purports to terminate its liability under any Loan Document or disputes the validity or enforceability of any such Loan Document;
- (n) if any Governmental Authority shall take any action to condemn, seize or appropriate any property of any Company that is material to its financial condition or operations;
- (o) if any of the Security ceases to constitute a valid first priority Lien (except to security held by the Senior Lender or except to the extent that the Lender has consented in writing to any Liens ranking in priority to the Security);
- (p) if any Company which is presently a Subsidiary of the Borrower ceases to be a Subsidiary of the Borrower (for greater certainty, other than in respect of the Target and KKP as and when they each become the Amalgamated Borrower hereunder as a result of the Borrower/Target Amalgamation);

- (q) if any report of the auditors of the Borrower contains any qualification which could reasonably be expected to adversely effect the creditworthiness of any Company or its ability to perform its obligations under the Loan Documents to which it is a party;
- (r) if any Change of Control occurs; or
- (s) if any event occurs relating to any Company, which in the opinion of the Lender, constitutes or could reasonably be expected to cause a Material Adverse Change.

12.02 Acceleration upon Event of Default; Additional Interest

Upon the occurrence of an Insolvency Default, all obligations of the Borrower to the Lender shall become immediately due and payable, without the necessity of any demand upon or notice to the Borrower by the Lender, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. Upon the occurrence and during the continuance of any other Event of Default, the Lender may by written notice delivered to the Borrower declare all obligations of the Borrower to the Lender to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. Without limiting the generality of the forgoing, the Lender shall also be entitled, concurrently with the making of any demand for payment hereunder, to realize upon and enforce any and all of the Security and other Loan Documents and proceed by any other action, remedy or proceeding authorized or permitted by this Agreement, such other Loan Documents or at law or in equity. The rights and remedies of the Lender hereunder and under the other Loan Documents are cumulative and in addition to and not in substitution for any rights or remedies provided at law. Upon the occurrence and during the continuance of an Event of Default, the Lender shall have the right to perform any of the covenants of the Companies which have not been performed, in which case the Borrower agrees to indemnify and hold harmless the Lender from and against any and all reasonable costs and expenses incurred by the Lender in connection therewith provided that the Lender shall have no obligation whatsoever to perform such covenants and the performance of any such covenants by the Lender shall not in any way prejudice any of the Lender's other rights and remedies.

12.03 Combining Accounts; Set-Off

On or at any time after the Acceleration Date, in addition to and not in limitation of any rights now or hereafter granted under applicable law, the Lender may take the following actions in respect of the Borrower from time to time, without notice to the Borrower, the Lender may combine, set-off and compensate and apply any and all deposits, general or special, time or demand, provisional or final, matured or unmatured, in any currency, and any other indebtedness at any time owing by the Lender to or for the credit of or the account of the Borrower, against and on account of the Obligations notwithstanding that any of them are contingent or unmatured. When applying a deposit or other amount owing to the Lender in a currency that is different than the currency of the Obligations, the Lender will convert the deposit or other amount using the Exchange Rate in effect at the time of such conversion.

12.04 Appropriation of Monies

On or at any time after the Acceleration Date, the Lender may from time to time appropriate any proceeds of realization of the Security given by or in respect of the Borrower against such portion of the obligations due to the Lender by the Borrower in the Lender's discretion, and the Borrower may not

require any different appropriation. The taking of a judgment or any other action or dealing whatsoever by the Lender in respect of the Security shall not operate as a merger of any of the Borrower's obligations hereunder or in any way affect or prejudice the rights, remedies and powers which the Lender may have; and the surrender, cancellation or any other dealing with any Security or the said obligations shall not release or affect the liability of the Borrower or any other Person in respect of the remaining portion of the said obligations.

12.05 Judgment Currency

If for the purposes of obtaining judgment in any court in any jurisdiction with respect to this Agreement it becomes necessary for the Lender to convert into the currency of such jurisdiction (in this section called the "**Judgment Currency**") any amount due to the Lender by the Borrower hereunder in any currency other than the Judgment Currency, the conversion shall be made at the Exchange Rate prevailing on the Business Day before the day on which judgment is given. In the event that there is a change in the Exchange Rate prevailing between the Business Day before the day on which the judgment is given and the actual date of payment of the amount due, the Borrower will, on the date of payment, pay such additional amounts (if any) or be entitled to receive reimbursement of such amount, if any, as may be necessary to ensure that the amount paid on such date is the amount in the Judgment Currency which when converted at the Exchange Rate prevailing on the date of payment is the amount then due under this Agreement in such other currency. Any additional amount due by the Borrower under this section will be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of this Agreement.

12.06 Insolvency Proceedings

If any Company intends to take the benefit of any Insolvency Legislation, including making an assignment for the general benefit of creditors, making a proposal or filing a notice of intention to make a proposal under any Insolvency Legislation, the Borrower covenants and agrees to provide the Lender with five (5) Business Days' prior written notice before any of the aforementioned proceedings are commenced. As soon as possible prior to the commencement of any such proceedings, the Borrower shall provide to the Lender copies of all relevant filing materials, including copies of draft court orders, plans of compromise, proposals and notices of intention. During this notice period the Lender may, in its sole discretion, elect to exercise any and all rights and remedies which may be available to it at that time as set out in this Agreement.

12.07 Remedies Cumulative

All of the rights and remedies granted to the Lender in this Agreement and any other documents or instruments in existence between the parties or contemplated hereby, and any other rights and remedies available to the Lender at law or in equity, shall be cumulative. The exercise or failure to exercise any of the said remedies shall not constitute a waiver or release thereof or of any other right or remedy, and shall be non-exclusive.

ARTICLE XIII- GENERAL

13.01 Waiver

Any failure or delay by the Lender in exercising any right or privilege with respect to the non-compliance with any provisions of this Agreement by the Borrower or of any other Loan Document by any other Company and any course of action on the part of the Lender, shall not operate as a waiver of any rights of the Lender unless made in writing by the Lender. Any such waiver shall be effective only in the specific instance and for the purpose for which it is given and shall not constitute a waiver of any other rights and remedies of the Lender with respect to any other or future non-compliance.

13.02 Governing Law; Waiver of Jury Trial

This Agreement shall be governed, construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Without prejudice to the right of the Lender to commence any proceedings with respect to this Agreement in any other proper jurisdiction, the Borrower hereby attorns and submits to the non-exclusive jurisdiction of the courts of the Province of Ontario, provided that the Lender shall be entitled to commence actions in the courts of any other jurisdiction in its discretion for the purpose of enforcing the provision of any of the Loan Documents. THE BORROWER AND THE LENDER HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY OTHER DOCUMENT CONTEMPLATED HEREIN.

13.03 Lender's Expenses

Whether or not the transactions contemplated by this Agreement are completed or the Advance is made, the Borrower agrees to pay on demand by or on behalf of the Lender all reasonable costs and expenses incurred by the Lender, including reasonable legal expenses on a solicitor and his own client basis, in connection with this Agreement and the other Loan Documents, including: the preparation, administration or interpretation of such documents, the protection and enforcement of the rights of the Lender provided for thereby, the enforcement of the Loan Documents and the preparation of any amendments (other than amendments as a result of an assignment of this Agreement by the Lender or other similar actions caused solely by the Lender), waivers, partial discharges and similar matters which may be required; together with interest after demand at the highest rate then applicable to the Term Facility. If such expenses are not paid in full within 30 days after the sending of a written request from the Lender, the Borrower hereby authorizes the Lender to debit its account in order to pay any such expenses.

13.04 General Indemnity

In addition to any other liability of the Borrower hereunder the Borrower agrees to indemnify and save harmless the Lender and its officers, directors, employees and agents (specifically including a receiver or receiver manager) and all of their respective successors, legal administrators and assigns (collectively, the "Lender Indemnitees") from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Lender Indemnitees which relate or arise out of or result from any failure by the Borrower to satisfy its obligations to the Lender when due or fulfil any of its other obligations to the Lender hereunder including, without limitation, any reasonable costs or expenses incurred by reason of the liquidation or re-employment in whole or in part of deposits

or other funds required by the Lender to fund or maintain the Term Facility or as a result of the Borrower's failure to take any action on the date required hereunder or specified by it in any notice given hereunder; except to the extent caused by the gross negligence or wilful misconduct of the Lender or its agents. The Lender shall hold for the benefit of this indemnity in trust for the Lender Indemnitees and this indemnity shall survive the termination of this Agreement.

13.05 Environmental Indemnity

In addition to any other liability of the Borrower hereunder, the Borrower agrees to indemnify and save harmless the Lender and the other Lender Indemnitees from and against:

- (a) any losses suffered by them for, in connection with, or as a direct or indirect result of, the failure of the Borrower or any other Company to comply with all Requirements of Environmental Law;
- (b) any losses suffered by the Lender Indemnitees for, in connection with, or as a direct or indirect result of, the presence of any Hazardous Material situated in, on or under any property owned by the Borrower or any other Company or upon which it carries on business; and
- (c) any and all liabilities, losses, damages, penalties, expenses (including reasonable legal fees on a solicitor and his own client basis) and claims which may be paid, incurred or asserted against the Lender Indemnitees for, in connection with, or as a direct or indirect result of, any legal or administrative proceedings with respect to the presence of any Hazardous Material on or under any property owned by the Borrower or upon which it carries on business, or the discharge, emission, spill, radiation or disposal by any of them of any Hazardous Material into or upon any land, the atmosphere, or any watercourse or body of water; including, without limitation the costs of defending and/or counterclaiming or claiming over against third parties in respect of any action or matter and any cost, liability or damage arising out of a settlement entered into by the Indemnitees of any such action or matter;

except to the extent that any of the foregoing liabilities, losses, damages, penalties and expenses were caused by the gross negligence or wilful misconduct of the Lender or its agents. The Lender shall hold the benefit of this indemnity in trust for the Lender Indemnitees and this indemnitee shall survive the termination of this Agreement.

13.06 Interest on Unpaid Costs and Expenses

If the Borrower fails to pay when due any amount in respect of costs or expenses or any other amount required to be paid by it hereunder (other than principal or interest on the Advance), it shall pay interest on such unpaid amount from the time such amount is due until paid at the rate equal to the highest rate of interest then applicable.

13.07 Notice

Without prejudice to any other method of giving notice, all communications provided for or permitted hereunder shall be in writing and delivered to the addressee by prepaid private courier or sent by telecopy or other direct written electronic means (provided that a written record is kept in

respect of any such electronic communication), to the applicable address and to the attention of the officer of the addressee as follows:

(a) to the Borrower, to it at:

c/o River Associates Investments, LLC
1640 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450

Attention: W. Craig Baker
Fax No.: (423) 755-0870
Email: cbaker@riverassociatesllc.com

with a copy to:

Miller & Martin PLLC
1000 Volunteer Building
832 Georgia Avenue
Chattanooga, Tennessee 37402

Attention: Jonathan F. Kent
Fax No.: (423) 785-8480
Email: jkent@millermartin.com

(b) to the Lender, to it at:

BMO Capital Corporation
Corporate Finance
11th Floor, 1 First Canadian Place
Toronto, Ontario
M5X 1A1

Attention: Managing Director (re: KK Precision Inc.)
Fax No. (416) 867-4108

Any notice or other communication made by personal delivery, telecopy or other direct written electronic means on a Business Day shall be deemed to have been given, received and made on such Business Day so long as it is actually received prior to 4:00 p.m. (Toronto time) on such Business Day, and otherwise shall be deemed to have been made on the next following Business Day (any such notice given, received or made on a day which is not a Business Day shall be deemed to have been made on the next following Business Day).

13.08 Time of the Essence

Time shall be of the essence of this Agreement.

13.09 Entire Agreement

This Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto relating to the subject-matter hereof. No provision of this Agreement or any other Loan Document may be modified, waived or terminated except by an instrument in writing executed by the party against whom such modification, waiver or termination is sought to be enforced. This Agreement supercedes and replaces in its entirety any and all discussion papers or term sheets issued by the Lender and accepted by the Borrower.

13.10 Paramountcy

To the extent there exists any inconsistency between any provision of this Agreement and any provision contained in any document comprising part of the Security, the provision in this Agreement shall govern to the extent of such conflict or inconsistency. For greater certainty, a provision in one Loan Document and a provision in another Loan Document shall not be considered to be inconsistent if both relate to the same subject matter and the provision in one Loan Document imposes more onerous obligations or restrictions than the corresponding provision in the other Loan Document. Furthermore, a conflict or inconsistency shall not occur or be deemed to have occurred if this Agreement or a Loan Document provides for a matter that the other does not.

13.11 Further Assurances

The Borrower shall, and shall cause each of its Subsidiaries to, at its expense, promptly execute and deliver to the Lender, or cause to be executed and delivered to the Lender, on request by the Lender from time to time, all such other and further documents, agreements, Security, opinions, certificates and instruments as may be reasonably requested by the Lender to more fully confirm and implement the intent and purpose of this Agreement and the other Loan Documents, or if necessary or desirable to more fully record or evidence the obligations intended to be entered into herein, or to make any recording, file any notice or obtain any consent. All documents, certificates, legal opinions and other agreements (including without limitation the Loan Documents) required to be delivered to the Lender hereunder shall be in form and substance satisfactory to the Lender acting reasonably. The Borrower shall ensure that all financial analyses and statements delivered to the Lender in connection with or as required by this Agreement are prepared in good faith based on assumptions believed by the Borrower to be reasonable.

13.12 Successors and Assigns

The Loan Documents shall be binding upon and enure to the benefit of the Lender, the Borrower, the Borrower's Subsidiaries and their heirs, estate trustees, personal and legal representatives, successors and assigns, except that neither the Borrower nor any of the Borrower's Subsidiaries shall assign any rights or obligations with respect to this Agreement or any of the other Loan Documents without the prior written consent of the Lender in its sole discretion. The collective rights and obligations of the Lender under this Agreement are assignable in whole or in part without the prior written consent of the Borrower or any other Company, and the Lender shall be entitled to assign in whole or in part its rights and obligations hereunder without the prior written consent of the Borrower or any other Company, provided that (i) any assignee shall have agreed in writing to be bound by the terms of this Agreement and the other Loan Documents, and (ii) the assignee shall not be a non-resident within the meaning of the *Income Tax Act* (Canada).

13.13 Borrower's Obligation of Confidentiality

The Borrower confirms and agrees with the Lender that the terms and conditions of the Loan Documents are confidential and proprietary to the Lender, and that the Lender could incur or sustain losses or damages if any of such confidential information or the substance thereof were disclosed to any Person or to the public or placed on any public file. Accordingly, the Borrower covenants and agrees to and in favour of the Lender that the Borrower shall not, nor shall it permit any of its employees, officers, directors, Subsidiaries, other Affiliates, agents or advisors, to disclose directly or indirectly any of such confidential information to any Person except (i) to officers, directors, Subsidiaries, employees, accountants, lawyers and other professional advisors of the Borrower and subject to the same confidentiality restrictions in favour of the Lender (ii) as may be necessary in connection with the repayment or refinancing of the Term Facility, the sale of substantially all of the assets or ownership interests of the Companies or a reorganization, recapitalization or merger of the Companies and (iii) as may be compelled in a judicial or administrative proceeding by a Governmental Authority or any Applicable Law.

13.14 Information Sharing

The Borrower agrees that the Lender may disclose any information regarding the Companies to Affiliates of the Lender or any other member of the BMO Financial Group to assist the Lender in supporting the Borrower with its strategic plans.

13.15 Tombstone Marketing

For the purpose of "tombstone marketing", the Borrower authorizes and consents to the reproduction, disclosure and use by the Lender of the Borrower's name, identifying logo and, the transactions contemplated by this Agreement and the Credit Facilities to enable the Lender to publish promotional "tombstones". The Borrower acknowledges and agrees that the Lender shall be entitled to determine, in its discretion, whether or not to use such information and that no compensation will be payable by the Lender in connection therewith and that the Lender shall have no liability whatsoever to the Borrower or any of their respective employees, officers, directors, affiliates or shareholders for obtaining or using such information as contemplated herein.

13.16 Execution by Fax and Counterparts

This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts together shall constitute one and the same Agreement. This Agreement may be executed by facsimile or electronic mail in pdf format and any signature contained hereon by facsimile or electronic mail in pdf format shall be deemed to be equivalent to an original signature for all purposes.

13.17 Binding Effect

This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns; "successors" includes any corporation resulting from the amalgamation of any party with any other corporation.

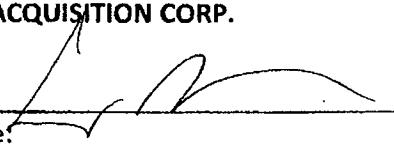
13.18 Borrower/Target Amalgamation

Immediately upon the completion of the Borrower/Target Amalgamation, the "Borrower" under this Agreement and each of the other Loan Documents shall immediately and without any further action required whatsoever be and be deemed to be the Amalgamated Borrower. The Amalgamated Borrower shall be subject to and bound by the provisions of the Loan Documents (including without limitation this Agreement and the Security) previously entered into or delivered by the Borrower, the Target and/or KKP in favour of the Lender.

[signature page to follow]

IN WITNESS WHEREOF this Agreement has been executed, sealed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KKP ACQUISITION CORP.

By: 
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

BMO CAPITAL CORPORATION

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____


IN WITNESS WHEREOF this Agreement has been executed, sealed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

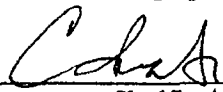
KKP ACQUISITION CORP.

By: _____
Name:
Title:

By: _____
Name:
Title:

BMO CAPITAL CORPORATION

per By: 
Name: David C. Smith
Title: Managing Director

By: 
Name: Chad Iwata
Title: Director

COMPLIANCE CERTIFICATE

CERTIFICATE OF COMPLIANCE

TO: BMO CAPITAL CORPORATION (the "Lender")

RE: Credit Agreement dated September 1, 2011 between the Lender, as lender, and KKP Acquisition Corp. (now KK Precision Inc.), as borrower (the "**Borrower**") (as same may be supplemented, amended, otherwise modified or restated from time to time, the "**Credit Agreement**").

The undersigned, <>, being the [**Chief Financial Officer**] of the Borrower and having knowledge of the matters hereinafter set forth, hereby certifies, on behalf of the Borrower, without personal liability as follows:

1.
 - (a) The Borrower has duly and properly caused to be completed the calculations in Appendix "A", for the purpose of confirming compliance with the financial covenants contained in Section 9.03(a) of the Credit Agreement (collectively, the "**Financial Covenants**").
 - (b) The calculations have been completed in accordance with GAAP based upon the most recent [audited/unaudited] consolidated financial statements of the Borrower in accordance with the requirements of the Credit Agreement.
 - (c) The Borrower is in compliance with the Financial Covenants, as reflected in the attached schedule of calculations.
 - (d) There are no material variances from the most recent approved business plan of the Borrower delivered to the Lender pursuant to the Credit Agreement, except as set out in any attachment to this Compliance Certificate or as otherwise may have been consented to by the Lender in writing.
2. I have read the provisions of the Credit Agreement which are relevant to this Compliance Certificate and have made investigations or examinations as are reasonably necessary to enable me to express an informed opinion on the matters contained in this Compliance Certificate.
3. At the end of the Borrower's most recently completed Fiscal Quarter, being <>, no Default or Event of Default had occurred and was continuing under the Credit Agreement [**or if such an event had occurred and was continuing, a summary of the steps being taken by the Borrower to remedy same are attached as a schedule to this Compliance Certificate**].
4. All representations and warranties contained in the Credit Agreement and each of the other Loan Documents are true and correct in all material respects with the same effect as if such representations and warranties are made on and as of the date of this Compliance Certificate.
5. No Default or Event of Default has occurred and is continuing as of the date hereof and has not been waived in writing by the Lender.

Capitalized terms used herein and not otherwise defined in this Compliance Certificate shall have the meanings respectively ascribed to them in the Credit Agreement.

Dated this _____ day of _____, _____.

Name

Title

Schedule 8.01(e)

(Corporate Structure and Places of Business)

Borrower

Ontario Corporation with its principal place of business located at Bay Adelaide Centre, P.O. Box 2900, 333 Bay Street, Suite 2900, Toronto, Ontario M5H 2T4.

Capitalization:

Shareholder	Number of Common Shares
River VI, L.P.	9,000,000
William Dube, Jr.	250,000
Stratham Development Corporation	250,000

Immediately following the closing of the Target Acquisition, Garth Wheldon, George Koulakian and Andrew Lee will each contribute all of their respective shares of the Target to the Borrower for the number of shares of the Borrower set forth next to each of their names below:

Garth Wheldon	150,000
George Koulakian	50,000
Andrew Lee	50,000

Target

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Capitalization:

Immediately following the closing of the Target Acquisition and the above described rollover transactions, Target will be a wholly-owned subsidiary of Borrower, which will own 14,540,938 voting common shares and 5,340,000 voting Class X Preference shares of Target.

KKP

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Capitalization:

Immediately following the closing of the Target Acquisition, KKP will be a wholly-owned subsidiary of Target, which will own 100 common shares and 1,498,729 of Class B Preference Shares of KKP.

Amalgamated Borrower

Ontario Corporation with its principle place of business located at 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

Other Locations:

1. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
2. See Schedule 9.02(n)

Capitalization:

See capitalization table attached

KK Precision Inc.
Capitalization
(All \$ in CAD)

<u>Common Stock</u>	<u>River %</u>	<u>Amt. Paid</u>	<u># of Shares</u>	<u>% Ownership</u>
River VI, L.P.	100.0000%	\$8,750,000.00	8,750,000.00	92.1053%
River VI Parallel, LP	0.0000%	\$0.00	0.00	0.0000%
River VI Group	100.0000%	\$8,750,000.00	8,750,000.00	92.1053%
Bill Dube		\$250,000.00	250,000.00	2.6316%
Stratham Development Corporation		\$250,000.00	250,000.00	2.6316%
Non-Management Shareholders		\$9,250,000.00	9,250,000.00	97.3684%
<u>Management Shareholders</u>				
Garth Wheldon		\$151,640.00	151,640.00	1.5962%
George Koulakian		\$49,180.00	49,180.00	0.5177%
Andrew Lee		\$49,180.00	49,180.00	0.5177%
Management Shareholders		\$250,000.00	250,000.00	2.6316%
Total		\$9,500,000.00	9,500,000.00	100.0000%

<u>Stock Options</u>	<u>Issued at \$1.00/share</u>	
Garth Wheldon	440,000.00	
George Koulakian	140,000.00	
Andrew Lee	140,000.00	
Paul Dickinson	95,000.00	
Bosko Maric	95,000.00	
Jim Morrison	95,000.00	
Dan Cristian	40,000.00	
Hariton Garabetian	40,000.00	
Total Management Team	1,085,000.00	
Bill Dube	200,000.00	
Total Issued Option Shares	1,285,000.00	11.9147%
<u>Total Shares (Fully Diluted)</u>	10,785,000.00	

Schedule 8.01(f)

(Specific Permitted Liens)

1. Xerox Canada Limited (file no. 642883635, registration no. 20080222 1701 1462 5430).

Schedule 8.01(g)
(Owned Properties)

None.

Schedule 8.01(h)

(Leased Properties)

1. 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.
2. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3

Schedule 8.01(i)

(Material Agreements)

1. Lease Agreement of even date herewith, by and between the Amalgamated Borrower and 104 Oakdale Acquisition Corp.
2. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and Garth Wheldon.
3. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and George Koulakian.
4. Employment Agreement of even date herewith, by and between the Amalgamated Borrower and Andrew Lee.
5. Target Purchase Agreement.
6. Escrow Agreement.
7. Senior Obligations and the documents related thereto.
8. Management Agreement
9. Shareholders Agreement
10. Amalgamated Borrower's Stock Option Plan
11. Share Purchase Agreement of even date herewith, by and among Borrower, River VI, L.P., and the other "Purchasers" set forth therein.
12. Letter Agreement of even date herewith, by and between Borrower and William Dube, Jr.
13. Indemnity Agreement dated August 26, 2011, by and among Andrew Cohen and Borrower providing indemnification rights to Andrew Cohen for serving as a member of the Borrower's board of directors.
14. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and Target providing indemnification rights to Andrew Cohen for serving as a member of the Target's board of directors.
15. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and KKP providing indemnification rights to Andrew Cohen for serving as a member of KKP's board of directors.
16. Long Term Agreement between KKP and Rolls Royce Canada Limited dated January 31, 2007, as amended.

17. Long Term Pricing Agreement between KKP and Rolls-Royce Power Engineering PLC dated August 25, 2009, as amended.
18. Agreement R-RGCP2003/1 DPC NM004 dated July 24, 2009, by and between Rolls-Royce plc.
19. Long Term Pricing Agreement between KKP and Pratt Whitney Canada Corp. dated September 18, 2002, as amended.
20. Memorandum of Agreement between KKP and Pratt & Whitney Canada Corp. dated April 17, 2008.
21. Equipment Lease dated February 20, 2008, between KKP and Xerox Canada Ltd.
22. KKP is party to non-disclosure or confidentiality agreements that it has entered into with customers, suppliers and other third parties in the ordinary course of business.
23. KKP has two healthcare plans: Healthsource SSQ Policy #56A30/Claimsecure Group #9733 for employees and Sun Policy 70134 – Division I for senior management employees.
24. Cutting Tool Integration Proposal dated August 14, 2007, by and between KKP and Tyson Tool Company Limited.
25. Insurance policies set forth below:
 - Automobile - Royal Sun Alliance Insurance Policy #IRC012226344
 - Commercial - AXA Commercial Insurance Policy #5027845
 - Aerospace - Global Aerospace Policy #21500359-ON
 - Employees & Management - Healthsource SSQ Policy #56A30/Claimsecure Group #9733 and Sun Policy 70134 – Division I
 - Director and Officers and Employment Practices insurance policy

Schedule 8.01(j)
(Intellectual Property)

Trade names:

KK Precision Inc.

Domain names:

www.kkprecision.com

Schedule 8.01(n)
(Hazardous Materials)

None.

Schedule 8.01(p)

(Undisclosed Liabilities)

1. Liabilities and obligations under or referred to in that certain letter agreement of even date herewith, by and between Borrower and William Dube, Jr.
2. Liabilities and obligations under or referred to in that certain Share Purchase Agreement of even date herewith, by and among Borrower, River VI, L.P. and the other "Purchasers" referred to therein.
3. Indemnity Agreement dated August 26, 2011, by and among Andrew Cohen and Borrower providing indemnification rights to Andrew Cohen for serving as a member of the Borrower's board of directors.
4. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and Target providing indemnification rights to Andrew Cohen for serving as a member of the Target's board of directors.
5. Indemnity Agreement dated September 1, 2011, by and among Andrew Cohen and KKP providing indemnification rights to Andrew Cohen for serving as a member of KKP's board of directors.

Schedule 8.01(r)

(Guarantees)

None.

Schedule 9.02(n)

(Locations)

PART I

Prior to the closing of the Target Acquisition and the Borrower/Target Amalgamation, the chief executive office of the Borrower is and will be Bay Adelaide Centre, P.O. Box 2900, 333 Bay Street, Suite 2900, Toronto, Ontario M5H 2T4.

Immediately following the closing of the Target Acquisition and the Borrower/Target Amalgamation, the chief executive office of the Amalgamated Borrower will be 104 Oakdale Road, Toronto, Ontario Canada M3N 1V9.

PART II

1. 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
2. Bradley Ontario Precision Inc. – 164 Buttermill Ave, Concord, Ontario L4K 3X6
3. Bradken Limited – 3040 Osler Street, London, Ontario N5V 1V3
4. CR Components Inc. – 4864 Talbot Hwy 3 West, Cayuga, Ontario NOA 1EO
5. DMI Precision Inc. – 6170 Ordan Drive, Mississauga, Ontario, Canada L5T 2B 3
6. Delta Grinding Co. – 1283 Matheson Blvd., Mississauga, Ontario L4W 1R1
7. Fountain Plating – 492 Prospect Avenue, West Springfield, MA 01089
8. Byron Products – 3781 Port Union Rd., Fairfield, OH 45014
9. Sablage Au Jet 2000 Inc. – 20815 Chemin Cote Nord, Boisbriand, QC J7E 4H5
10. MacFab Manufacturing Inc. – 1200 Aimco Blvd, Mississauga, Ontario L4W 1B2
11. Specialized Welding – 570 McGeachie Drive, Milton, Ontario L9T 3Y5
12. Bloom Industrial Machining – 135 Industrial Td., Unit #4, Cambridge, Ontario N3H 4W3
13. Alpen Machine & Tool LTD. – 41-A Buttermill Avenue Cocorde, Ontario L4K 3X1
14. MTM Automation & Aerospace Mfg Inc. – 357 Michener Rd., Guelph Ontario N1K 1E8
15. Pratt & Whitney Canada – 1000 Blvd. Marie Victorin, Longueuil, QC
16. Pratt & Whitney Canada c/o Excel Canada Ltd. – 100 World Drive, Mississauga, ON

- 17. Pratt & Whitney Canada c/o Transport Robert – 65 De Vauderuil, Boucherville, QC
- 18. Vantage – 6160 Ordan Drive, Mississauga, ON
- 19. Vac Aero – 1365 Rue Newton, Boucherville, QC
- 20. Vac Aero – 7451 Rue Verite, St. Laurent, QC
- 21. Vac Aero – 1371 Speers Rd., Oakville, ON
- 22. Axis Tool & Gauge Inc. – 664 Bishop Street, Cambridge, ON.

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This amending agreement is made this 31st day of January, 2013.

AMONG:

KK PRECISION INC.

- and -

BANK OF MONTREAL d.b.a BMO Capital Partners

WHEREAS KKP Acquisition Corp. and BMO Capital Corporation entered into a credit agreement dated the 1st day of September, 2011 (the "**Credit Agreement**");

AND WHEREAS on or about the 1st day of September, 2011, KKP Acquisition Corp. amalgamated with KK Precision Inc. and Precinda Inc. and continued on as KK Precision Inc. (the "**Borrower**");

AND WHEREAS effective November 1, 2011 BMO Capital Corporation assigned, transferred, conveyed and set over to Bank of Montreal d.b.a. BMO Capital Partners (the "**Lender**"), all of its right, title and interest in and to the Credit Agreement and the Loan Documents;

AND WHEREAS the Borrower has requested amendments to the Credit Agreement and the Lender has agreed to make such amendments subject to the terms and conditions set out in this amendment agreement (this "**Agreement**");

NOW THEREFORE in consideration of the premises and the agreements herein set out and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I **INTERPRETATION**

1.1 Definitions.

Unless otherwise defined herein, capitalized terms used in this Agreement shall have the same meanings ascribed to such terms in the Credit Agreement.

1.2 References to Credit Agreement.

Upon execution of this Agreement, the Credit Agreement shall be deemed to have been amended as of the date hereof. The terms "hereof", "herein", "this Agreement" and similar terms used in the Credit Agreement, shall mean and refer to, from and after the date hereof, the Credit Agreement as amended by this Agreement.

1.3 Continued Effectiveness.

Subject only to Section 3.1 hereof, nothing contained in this Agreement shall be deemed to be a waiver by the Lender of compliance by the Borrower of any covenant or agreement contained in, or a waiver of any Default or Event of Default under the Credit Agreement, and each of the parties hereto agree that the Credit Agreement, as amended by this Agreement, shall remain in full force and effect.

1.4 Benefit of this Agreement.

This Agreement shall enure to the benefit of and be binding upon the Borrower and the Lender and their respective successors and permitted assigns.

1.5 Invalidity of any Provisions.

Any provision of this Agreement which is prohibited by Applicable Law shall be ineffective only to the extent of such prohibition in such jurisdiction without invalidating the remaining terms and provisions hereof and no such invalidity shall affect the obligation of the Borrower to pay the Obligations in full.

1.6 Captions and Headings.

The inclusion of headings preceding the text of the sections of this Agreement and the headings following each Article in this Agreement are intended for convenience of reference only and shall not affect in any way the construction or interpretation thereof.

ARTICLE II AMENDMENTS, ACKNOWLEDGEMENT AND AGREEMENTS

2.1 Subject to satisfaction of the conditions precedent set forth in Article V of this Agreement, the parties acknowledge and agree (as the case may be) as follows:

- (a) As of the date hereof, until agreed to in writing by the Lender following compliance by the Borrower with each of the financial covenants set out in Section 9.03(a) of the Credit Agreement in existence prior to the amendments provided for herein, (i) Section 3.06 of the Credit Agreement is hereby amended by (I) replacing the words "14% per annum" with the words "14.5% per annum", (ii) Section 3.06 of the Credit Agreement is hereby amended by replacing the words "2% of which shall be calculated and compounded monthly" with the words "2.5% of which shall be calculated and compounded monthly", and (iii) Section 3.07 of the Credit Agreement is hereby amended by replacing the words "the Obligations shall be 16% per annum" with the words "the Obligations shall be 16.5% per annum".
- (b) In this Agreement, "Special Equity Amount" means the aggregate amount of the proceeds from the issuance of up to 3,000,000 shares of preferred stock of the Borrower (the "Preferred Stock") to one or more Affiliates of River Associates Investments, LLC, who are currently shareholders of the Borrower, on or before January 31, 2013 for an aggregate amount of up to Three Million Dollars (Cdn.) (\$3,000,000) (the

"Investment Amount") which represents a per share price of Cdn.\$1.00 (the **"Per Share Price"**). Although one or more Affiliates of River Associates Investments, LLC will pay the Investment Amount to the Borrower for the Preferred Stock, the Borrower shall be permitted to redeem up to 192,020.85 shares of Preferred Stock (the shares so redeemed being the **"Redeemed Shares"**) from such Affiliates for a redemption price per share equal to the Per Share Price so long as a concurrent sale of shares of Preferred Stock by the Borrower to certain existing shareholders of the Borrower occurs and the aggregated proceeds from such sale are at least equal to the product of the Per Share Price times the aggregate number of Redeemed Shares. For the purposes of this Agreement, the Special Equity Amount shall consist of a: (a) Two Million Dollar (Cdn.) (\$2,000,000) equity cure amount (the **"Equity Cure Amount"**); and (b) up to One Million Dollar (Cdn.) (\$1,000,000) restructuring charge cure amount (the **"Restructuring Cure Amount"**).

The following provisions shall apply to the Special Equity Amount:

- (i) the Borrower may at any time deliver a written notice to the Lender advising that all or any portion of the Equity Cure Amount (each, an **"Equity Cure Designated Amount"**) shall be added to EBITDA in the determination of EBITDA in respect of the Fiscal Quarter in which such notice is delivered to the Lender (on a rolling four quarter basis). In such event, the Equity Cure Designated Amount shall be added to EBITDA in the determination of EBITDA for the purposes of calculating the Total Funded Debt to EBITDA Ratio and Fixed Charge Coverage Ratio only for such Fiscal Quarter (on a rolling four quarter basis) and the Equity Cure Designated Amount shall be deemed to be utilized and shall be subtracted from the Equity Cure Amount available for future use by the Borrower;
- (ii) in the event that the Borrower incurs restructuring charges in an amount greater Six Hundred Thousand Dollars (Cdn.) (\$600,000) in Fiscal Year 2012 and Fiscal Year 2013 only, the Borrower may deliver a written notice to the Lender advising that all or any portion of the Restructuring Cure Amount (each, a **"Restructuring Cure Designated Amount"**) shall be added to EBITDA in the determination of EBITDA in respect of the Fiscal Quarter in which such notice is delivered to the Lender (on a rolling four quarter basis). In such event, the Restructuring Cure Designated Amount shall be added to EBITDA in the determination of EBITDA for the purposes of calculating the Total Funded Debt to EBITDA Ratio and Fixed Charge Coverage Ratio only for such Fiscal Quarter (on a rolling four quarter basis) and the Restructuring Cure Designated Amount shall be deemed to be utilized and shall be subtracted from the Restructuring Cure Amount available for future use by the Borrower;
- (iii) for greater certainty, if EBITDA in respect of any Fiscal Quarter is increased as a result of paragraphs (i) or (ii) above, (A) the Borrower's compliance with all applicable financial covenants in the Credit Agreement relating to or involving the determination of EBITDA for such Fiscal Quarter shall be determined based on such increased EBITDA and (B) once the Equity Cure Designated Amount or the Restructuring Cure Designated Amount, as the case may be, is added in the

determination of EBITDA for such Fiscal Quarter, no Person shall be permitted to replenish the Special Equity Amount.

- (c) The definition of "EBITDA" in Section 1.01 of the Credit Agreement is hereby amended by (i) replacing the word "and" on the tenth line thereof following the words "\$50,000 per Fiscal Year" with a "," and (ii) inserting the words "and (ix) non-recurring expenses in the aggregate amount of up to Six Hundred Thousand Dollars (\$600,000) in Fiscal Year 2012 and Fiscal Year 2013 only" on the thirteenth line thereof before the words "minus (y)".
- (d) The definition of "Fixed Charge Coverage Ratio" in Section 1.01 of the Credit Agreement is hereby amended by inserting the words "other than management fees paid in Fiscal Year 2012" following the words "Distributions (including management fees".
- (e) Paragraph (k) in the definition of "Permitted Liens" in Section 1.01 of the Credit Agreement is hereby amended by replacing the words "maximum aggregate amount of \$500,000" with the words "maximum aggregate amount of \$250,000".
- (f) The definition of "Total Funded Debt" in Section 1.01 of the Credit Agreement is hereby amended by (i) inserting the word "(x)" after the word "means" on the first line thereof and (ii) inserting the words "less (y) during Fiscal Year 2013 only, cash on hand of the Companies" in clause (viii) following the words "short term non-interest bearing liabilities".
- (g) Section 9.02(d) of the Credit Agreement is hereby amended by replacing the words "in an amount greater than \$250,000" with the amount "in an amount greater than \$100,000".
- (h) Subsections 9.03(a)(i) and 9.03(a)(ii) of the Credit Agreement are hereby deleted in their entirety and replaced with the following new subsections:
 - "(i) the Total Funded Debt to EBITDA Ratio at (A) 5.00:1 or less from December 31, 2012 to and including March 30, 2013, (B) 5.25:1 or less from March 31, 2013 to and including June 29, 2013, (C) 5.50:1 or less from June 30, 2013 to and including March 30, 2014, (D) 5.00:1 or less from March 31, 2014 to and including June 29, 2014, (E) 4.50:1 or less June 30, 2014 to and including September 29, 2014, (F) 3.50:1 or less from September 30, 2014 to and including September 29, 2015, (G) 2:50:1 or less from September 30, 2015 to and including September 29, 2016 and (H) 2:00:1 for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on September 30, 2016;
 - (ii) Fixed Charge Coverage Ratio of (A) 1.05:1 or greater from December 31, 2012 to and including March 30, 2014, (B) 1.10:1 or greater from March 31, 2014 to and including June 29, 2014 and (C) 1.20:1 or greater for all of its Fiscal Quarters thereafter commencing with the Fiscal Quarter ending on June 30, 2014; and".

- (i) Section 9.03(b) of the Credit Agreement is hereby amended by deleting such Section in its entirety and replacing same with the following new Section 9.03 (b):

"Capital Expenditures - not make Unfunded Capital Expenditures or permit its Subsidiaries to make Unfunded Capital Expenditures or incur or assume any debt or liability therefor without the prior written consent of the Lender; except that if no Default or Event of Default has occurred and is continuing, or would be caused by such transaction, the Borrower is permitted to make (i) Unfunded Capital Expenditures in an aggregate amount not exceeding \$1,000,000 for the period from the date hereof until September 30, 2012, (ii) Capital Expenditures in an aggregate amount not exceeding \$400,000 for the Fiscal Year ending September 30, 2013, (iii) Capital Expenditures in an aggregate amount not exceeding \$300,000 for the Fiscal Year ending September 30, 2014 and (iv) subject to the Lender's consent in any event for each Fiscal Year of the Borrower thereafter (for the purposes of this Section 9.03(b), any unused permitted Unfunded Capital Expenditure amount in any Fiscal Year may not be carried over to any future Fiscal Year)."

- (j) Section 9.03(c) of the Credit Agreement is hereby amended by

- (i) inserting the words "without the prior written consent of the Lender," before the words "not make any Distributions";
- (ii) deleting the words "Management Fees to River up to the maximum aggregate amount per Fiscal Year equal to \$210,000 and" before the words "all reasonable out-of-pocket expenses incurred by River" in Subsection 9.03(c)(ii);
- (iii) deleting Subsection 9.03(c)(iii) in its entirety and replacing same with the following new Subsection 9.03 (c)(iii)

"Borrower may make Distributions in respect of the redemption or purchase of shares or partnership units of a terminated employee or director up to the maximum aggregate amount of \$50,000;" and

- (iv) deleting Subsections 9.03(c)(iv) and 9.03(c)(v) in their entirety.
- (k) Section 9.03(d) of the Credit Agreement is hereby amended by (i) inserting the words "without the prior written consent of the Lender," before the words "not make, maintain, incur or acquire any Investments" and (ii) deleting the text of Subsection 9.03(d)(i) in its entirety and replacing it with the words "[Intentionally Deleted.]".
- (l) Section 9.04 of the Credit Agreement is hereby amended by renumbering Section 9.04(e) as Section 9.04(f) and inserting the following new Section 9.04(e):

"a monthly management discussion and analysis of the Borrower, including financial highlights and performance relative to the Borrower's business plan by the 30th day after the end of each month; and"

ARTICLE III
WAIVER AND CONFIRMATION

3.1 Waiver.

Subject to satisfaction of the conditions precedent set forth in Article V of this Agreement, the Lender confirms that further to Subsections 9.03(a)(i) and 9.03(a)(ii) of the Credit Agreement, the Lender hereby waives compliance with such subsections for the Fiscal Quarters ending June 30, 2012 and September 30, 2012 only.

3.2 Confirmation of Security.

The Borrower hereby agrees, acknowledges and confirms to and in favour of the Lender that all Security provided by it pursuant to the Loan Documents prior to the date hereof continues in full force and effect and secures all of the Obligations.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties.

The Borrower hereby represents and warrants to the Lender that immediately after the date hereof all representations and warranties contained in Article VIII of the Credit Agreement shall (other than any representation or warranty expressly stated to be as of a specific date) be true, correct and complete in all material respects as if made at such time.

ARTICLE V
CONDITIONS PRECEDENT

5.1 Conditions Precedent.

This Agreement shall not become effective until the Lender shall have received the following, each done or dated (as the case may be) on or before the date hereof and all in form and substance satisfactory to the Lender:

- (a) this Agreement shall have been duly executed and delivered by the Borrower;
- (b) the Lender shall have received all such other certificates, documents and information that it may reasonably request;
- (c) the Borrower shall pay an amendment fee to the Lender in the amount of Twelve Thousand Five Hundred Dollars (\$12,500). The Borrower acknowledges that such fee has been earned by the Lender and the Borrower's obligation to pay such amendment fee is unconditional. The Borrower hereby irrevocably authorizes the Lender to debit the bank account maintained by the Borrower with the Lender in payment of such amendment fee; and
- (d) the Special Equity Amount has been made available to the Borrower on terms acceptable to the Lender.

ARTICLE VI
MISCELLANEOUS

6.1 Further Assurances.

The Borrower hereby agrees to execute and deliver or cause to be executed and delivered all such instruments and to take all such action as the Lender may reasonably request in order to more fully effectuate and accomplish the intent and purposes of and to carry out the terms of this Agreement.

6.2 Governing Law; Waiver of Jury Trial.

This Agreement shall be governed, construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Without prejudice to the right of the Lender to commence any proceedings with respect to this Agreement in any other proper jurisdiction, the Borrower hereby attorns and submits to the non-exclusive jurisdiction of the courts of the Province of Ontario, provided that the Lender shall be entitled to commence actions in the courts of any other jurisdiction in its discretion for the purpose of enforcing the provision of any of the Loan Documents. THE BORROWER AND THE LENDER HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY OTHER DOCUMENT CONTEMPLATED HEREIN.

6.3 Time of the Essence.

Time shall be of the essence of this Agreement.


6.4 Execution by Fax and Counterparts.

This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts taken together shall constitute one and the same Agreement. This Agreement may be executed by facsimile or electronic mail in portable document format ("pdf") and any signature contained hereon by facsimile or electronic mail in pdf shall be deemed to be equivalent to an original signature for all purposes.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KK PRECISION INC.

By: 
Name: W. CRAIG BAKER
Title: SECRETARY

By: _____
Name: _____
Title: _____

**BANK OF MONTREAL d.b.a
BMO CAPITAL PARTNERS**

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf, as at the date set out on the first page hereof.

KK PRECISION INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**BANK OF MONTREAL d.b.a
BMO CAPITAL PARTNERS**

By: _____
Name: David C. Smith
Title: Managing Director

By: _____
Name: Chad Iwata
Title: Director

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KK PRECISION INC.

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**APPLICATION RECORD
(Volume 1 of 2)**

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