

**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

**MOTION RECORD
(Returnable September 16, 2014)**

September 10, 2014

DENTONS CANADA LLP
77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON M5K 0A1

John Salmas (LSUC 42336B)
Tel: (416) 863-4374
Fax: (416) 863-4592
Email: john.salmas@dentons.com

Robert J. Kennedy (LSUC 474070)
Tel: (416) 367-6756
Fax: (416) 863-4592
Email: robert.kennedy@dentons.com

Solicitors for the Applicant

SERVICE LIST

TO:	<p>AIRD & BERLIS LLP Brookfield Place 181 Bay Street, Suite 1800 P.O. Box 754 Toronto, ON M5J 2T9</p> <p>Steven L. Graff Telephone: (416) 865-7726 Fax: (416) 863-1515 Email: sgraff@airdberlis.com</p> <p>Ian Aversa Telephone: (416) 865-3082 Fax: (416) 863-1515 Email: iaversa@airdberlis.com</p> <p><i>Solicitors for Bank of Montreal and BMO Capital Corporation</i></p>
AND TO:	<p>MILLER & MARTIN PLLC Suite 1000 Volunteer Bldg. 832 Georgia Avenue Chattanooga, TN 37402</p> <p>Jonathan F. Kent Telephone: (423) 785-8301 Fax: (423) 321-1539 Email: jkent@millermartin.com</p> <p><i>Solicitor for River VI, L.P.</i></p>
AND TO:	<p>CHAITONS LLP 5000 Yonge Street 10th Floor Toronto, ON M2N 7E9</p> <p>Sam Rappos Telephone: (416) 218-1137 Fax: (416) 218-1837 Email: samr@chaitons.com</p> <p><i>Solicitor for the Monitor</i></p>

AND TO:	GOWLING LAFLEUR HENDERSON LLP 1 First Canadian Place 100 King Street West Suite 1600 Toronto, ON M5X 1G5 Frank Lamie Telephone: (416) 862-3609 Fax: (416) 862-7661 Email: frank.lamie@gowlings.com <i>Solicitor for Siemens Energy Inc.</i>
AND TO:	MINDEN GROSS LLP 145 King Street West Suite 2200 Toronto, ON M5H 4G2 David Ullmann Telephone: (416) 369-4148 Fax: (416) 864-9223 Email: dullmann@mindengross.com <i>Solicitor for the Landlord</i>
AND TO:	PRATT & WHITNEY CANADA 1000, Marie-Victorin Blvd. Longueuil, Québec J4G 1A1 Ms. Melanie Chartrand Telephone: (450) 647-3734 Email: Melanie.chartrand@pwc.ca
AND TO:	XEROX CANADA LTD. 33 Bloor Street East, 3 rd Floor Toronto, ON M4W 3H1 Stephanie Grace Email: stephanie.grace@xerox.com
AND TO:	ORBIAN FINANCIAL SERVICES II, LLC 200 Connecticut Avenue Norwalk, CT 06854 Telephone: (203) 866-1980 Fax: (203) 866-1008

AND TO:	RIVER VI, L.P. 1640 Republic Centre 633 Chestnut Chattanooga, TN 37450
AND TO:	ROLLS-ROYCE CANADA LIMITED 9500, Côte-De-Liesse Lachine, Québec H8T 1A2 Richard Brattle Email : richard.brattle1@rolls-royce.com Mick Butler Email: mick.butler2@rolls-royce.com
AND TO:	104 OAKDALE ACQUISITION CORP. 2 Bloor Street West Suite 3400 Toronto, ON M4W 3E2 Jesse Gill Email: jg@terranovapartners.com
AND TO:	RICHTER ADVISORY GROUP INC. 1981 McGill College 12 th Floor Montréal, Québec H3A 0G6 Andrew Adessky, CPA, CA, CIRP Telephone: (514) 934-3513 Fax: (514) 934-3504 Email: aadessky@richter.ca Eric Barbieri, CPA, CA Telephone: (514) 934-8693 Fax: (514) 934-3504 Email: ebarbieri@richter.ca Adam Sherman Telephone: (416) 488-2345 Fax: (514) 934-8603 Email: asherman@richter.ca <i>The Monitor</i>

AND TO:	<p>AIRD & BERLIS LLP Brookfield Place 181 Bay Street, Suite 1800 P.O. Box 754 Toronto, ON M5J 2T9</p> <p>Richard Epstein Telephone: (416) 865-3437 Fax: (416) 863-1515 Email: repstein@airdberlis.com</p> <p><i>Solicitors for Infinity Asset Solutions Inc.</i></p>
----------------	---

INDEX

**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

INDEX

TAB NO.

- | | |
|----------|---|
| 1 | Notice of Motion, dated September 10, 2014 |
| A | Draft Order |
| 2 | Affidavit of Garth Wheldon, sworn September 10, 2014, and exhibits: |
| A | A true copy of the SISP Order granted June 25, 2014; |
| B | A true copy of the Approval and Vesting Order granted August 5, 2014; |
| C | Affidavit of George Koulakian sworn May 28, 2014, without exhibits; |
| D | Affidavit of Garth Wheldon sworn June 24, 2014, without exhibits; |
| E | Affidavit of Garth Wheldon sworn July 24, 2014, without exhibits; and |
| F | Projected cash flow statement for the period of September 6, 2014 to November 28, 2014. |

TAB 1

**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 MOTION
(Returnable September 16, 2014)**

KK Precision Inc. (the “**Company**” or “**KKP**”) will make a motion to a Judge presiding over the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) on September 16, 2014 at 10:00 a.m., or as soon after that time as the motion can be heard at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order, substantially in the form of the draft order attached hereto as Schedule “A”, *inter alia*:
 - (a) abridging the timing and validating the method of service of this Notice of Motion and Motion Record such that the Motion is properly returnable on September 16, 2014, and dispensing with further service thereto;
 - (b) extending the Stay Period, as defined in the Order of The Honourable Mr. Justice Wilton-Siegel made in these proceedings on May 30, 2014 (the “**Initial Order**”), until November 28, 2014;

- (c) approving an interim distribution by the Company to the Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of KKP (collectively, the “**Secured Lenders**”), in the amount of \$6.0 million, subject to the Company maintaining the Holdback (as defined below) to finalize the wind-down of its operations and remediation costs;
- (d) authorizing the Company to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor (as defined below), determines are appropriate, subject to the Company maintaining the Holdback to finalize the wind-down of its operations; and
- (e) such further and other relief as this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

CCAA PROCEEDINGS & EXTENSION OF STAY PERIOD

1. On May 30, 2014, the Court issued the Initial Order granting the Company protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed as the monitor of the Applicant (the “**Monitor**”). The Initial Order provided the Company with, *inter alia*, a stay of proceedings (the “**Stay Period**”) until June 29, 2014;
2. On June 25, 2014, the Court issued an order which, among other things, extended the Stay Period to September 19, 2014;
3. Although the primary revenue generating operations of the Company have substantially ceased, certain tasks remain ongoing, including, among other things, collecting receivables, preparing and filing tax returns, sorting and storing necessary Company records, assisting Infinity Asset Solutions Inc. (“**Infinity**”) in carrying out the Liquidation Services Agreement (the “**LSA**”), which includes assisting with the auction process and the removal of the equipment, and repairing the leased premises municipally known as 104 Oakdale Ave. (the “**Premises**”);

4. It is estimated that the process to complete all of these items will continue for at least a few months. As a result, the Applicant is requesting that the Stay Period be extended to November 28, 2014;
5. The Company has generated approximately \$3.0 million of net positive cash flow since the Initial Order, and KKP appears to have sufficient cash flow to continue to operate to the end of the proposed extended Stay Period;
6. The Applicant has been and is continuing to act in good faith and with due diligence and believes it is in the best interest of KKP and its stakeholders to continue in these CCAA proceedings;

INTERIM DISTRIBUTION

7. KKP has an excess of cash available as a result of operations and the payments received pursuant to the LSA and the various accommodation agreements the Company entered into with Rolls-Royce Canada Limited, Siemens Energy Inc. and Pratt & Whitney Canada Corp (the “**Accommodation Agreements**”);
8. KKP has substantially completed all of the work pursuant to the Accommodation Agreements. As a result, KKP has either collected or is currently collecting on the accounts receivable generated in connection with the Accommodation Agreements;
9. KKP has received the deposit and the net minimum guarantee payment from Infinity pursuant to the terms of the LSA, giving KKP a substantial surplus of cash;
10. The Monitor’s counsel has conducted an independent security review of the Secured Lenders’ security and determined same to be valid and enforceable;
11. The Secured Lenders, being the primary secured creditors to KKP, with first ranking PPSA registrations against the Company’s assets, have requested an interim distribution be made to pay a portion of the outstanding debt owed by the Company to the Secured Lenders;

12. Given the surplus of cash available, it is appropriate at this time to make an interim distribution to the Secured Lenders of \$6.0 million subject to a holdback of approximately \$1.77 million (the “**Holdback**”) for payment of wind-down costs or other expenses associated with the completion of the Company’s CCAA proceedings, which includes an amount of \$400,000 on account of potential costs to complete any additional repairs/remediation to the Premises;
13. The Company is also seeking the Court’s authorization to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor, determines are appropriate, subject to the Company maintaining a portion of the Holdback to finalize the wind-down of its operations;

GENERAL

14. The Monitor supports the proposed relief;
15. The Secured Lenders, being the secured creditors affected by the order sought are being given notice of the motion and support the proposed relief;
16. All other known secured creditors are being given notice of this motion;
17. The provisions of the CCAA;
18. The *Rules of Civil Procedure* (Ontario) including Rules 1.04 and 16.04; and
19. Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The Affidavit of Garth Wheldon sworn September 10, 2014, and the attached exhibits;
2. The third report of the Monitor, to be filed separately;

3. Such further and other materials as counsel may advise and this Honourable Court may permit.

September 10, 2014

DENTONS CANADA LLP
Barristers & Solicitors
77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, Ontario L5K 0A1

John Salmas
LSUC No: 42336B
Telephone: (416) 863-4737
Fax: (416) 863-4592
Email: john.salmas@dentons.com

Robert Kennedy
LSUC No: 474070
Telephone: (416) 367-6756
Fax: (416) 863-4592
Email: Robert.kennedy@dentons.com

Lawyers for the Applicant

TO: SERVICE LIST

TAB A

SCHEDULE 'A'

Court File No. CV-14-10573-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE ●)	TUESDAY, THE 16 th DAY
)	
JUSTICE ●)	OF SEPTEMBER, 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.

ORDER

THIS MOTION made by the applicant, KK Precision Inc. (“**KKP**” or the “**Company**”), pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), for an order, *inter alia*, (i) declaring that the time for service of the Notice of Motion and the Motion Record be abridged so that this motion is properly returnable, (ii) approving an interim distribution by the Company to the Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of KKP (the “**Secured Lenders**”), subject to maintaining a Holdback (as defined below); (iii) authorizing KKP to make such subsequent distributions to the Secured Lenders that the Company, in consultation with Richter Advisory Group Inc. in its capacity as Court-appointed monitor of the Company (the “**Monitor**”), determines are appropriate, subject to the Company maintaining a portion of the Holdback to finalize the wind-down of its operations; and (iv) extending the Stay Period, as defined in the Order of The Honourable Mr. Justice Wilton-Siegel made in these proceedings on May 30, 2014 (the “**Initial Order**”), until November 28, 2014, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit Garth Wheldon sworn September 10, 2014 and the Third Report of the Monitor dated September 10, 2014 and on hearing the submissions of counsel for the Company, the Monitor, 2215225 Ontario Inc., and the Secured Lenders, no one appearing for any other person on the service list, although properly served as appears from the affidavit of ● sworn September ●, 2014, filed:

SERVICE

1. **THIS COURT ORDERS AND DECLARES** that the time for service of the Notice of Motion and Motion Record herein be and is hereby abridged such that this motion is properly returnable today and that all parties entitled to notice of the Motion have been duly served, and that any requirement for service of the Notice of Motion and Motion Record upon any party other than the parties served is unnecessary and hereby dispensed with and that the service of the Notice of Motion and Motion Record is hereby validated in all respects.

INTERIM DISTRIBUTIONS

2. **THIS COURT ORDERS** that, subject to the Company maintaining a holdback of approximately \$1,764,000 (the “**Holdback**”), the Company is hereby authorized to make an interim distribution to the Secured Lenders in the amount of \$6,000,000.

3. **THIS COURT ORDERS** that the Company is hereby authorized to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor, determines are appropriate, provided that a relative portion of the Holdback is retained to account for the wind-down expenses of the Company.

EXTENSION OF STAY

4. **THIS COURT ORDERS** that the Stay Period as defined in the Initial Order be and is hereby extended until November 28, 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.

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

NOTICE OF MOTION
(Returnable September 16, 2014)

DENTONS CANADA LLP

77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON M5K 0A1

John Salmas

LSUC No: 42336B

Tel: (416) 863-4374

Fax: (416) 863-4592

Email: john.salmas@dentons.com

Robert J. Kennedy

LSUC No: 474070

Tel: (416) 367-6756

Fax: (416) 863-4592

Email: robert.kennedy@dentons.com

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 GARTH WHELDON
(Sworn September 10, 2014)**

I, Garth Wheldon, of the City of Burlington, in the Province of Ontario,
SOLEMNLY SWEAR AND SAY:

1. I am a managing director of MVM Industrial Services Limited, which is a third party providing consulting services to KK Precision Inc. (the “**Company**” or “**KKP**”) pursuant to a Court-approved advisory services agreement, and as such, I have personal knowledge of the matters to which I hereinafter deposed to, except where stated to be based on information and belief, in which case I verily believe the same to be true.

2. This affidavit is sworn in support of KKP’s motion, returnable September 16, 2014 (the “**Motion**”), for relief which includes the following:

- (a) abridging the timing and validating the method of service of this Notice of Motion and Motion Record such that the Motion is properly returnable on September 16, 2014, and dispensing with further service thereto;
- (b) extending the Stay Period, as defined in the Order of The Honourable Mr. Justice Wilton-Siegel made in these proceedings on May 30, 2014 (the “**Initial Order**”), until November 28, 2014;

- (c) approving an interim distribution by the Company to the Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of KKP (collectively, the “**Secured Lenders**”), in the amount of \$6.0 million, subject to the Company maintaining the Holdback (as defined below) to finalize the wind-down of its operations and remediation costs;
 - (d) authorizing the Company to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor (as defined below), determines are appropriate, subject to the Company maintaining a portion of the Holdback to finalize the wind-down of its operations; and
 - (e) such further and other relief as this Honourable Court may deem just.
3. I have had the opportunity to review a draft of the Third Report, and I agree with the summaries and the recommendation contained therein.

BACKGROUND

4. On May 30, 2014, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued the Initial Order granting the Company protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed as the Company’s monitor (the “**Monitor**”). The Initial Order provided the Company with, *inter alia*, a stay of proceedings (the “**Stay Period**”) until June 29, 2014.
5. On June 25, 2014, this Honourable Court granted an Order which approved the solicitation process (the “**SISP Order**”) for all of the Company’s assets (the “**Assets**”). A copy of the SISP Order is attached to this affidavit as **Exhibit ‘A’**.
6. The SISP Order also, among other things, extended the Stay Period to September 19, 2014.
7. On August 5, 2014, this Honourable Court granted an order (the “**Approval and Vesting Order**”) which, *inter alia*, approved a Liquidation Services Agreement between

the Company and Infinity Asset Solutions Inc. (“**Infinity**”) dated July 25, 2014 (the “**LSA**”). A copy of the Approval and Vesting Order is attached hereto as **Exhibit ‘B’**.

8. The Company has worked very closely with the Monitor to take the necessary steps to protect value in the Company and the Assets while it winds-down its operations. The Company has also been communicating with its stakeholders, negotiating agreements with its customers and creditors, developing and implementing the court-approved sales and solicitation process (“**SISP**”) and restoring the leased premises municipally known as 104 Oakdale Ave. (the “**Premises**”).

9. Additional details regarding the operations of the Company and the issues addressed since the commencement of these CCAA proceedings can be found in the affidavit of George Koulakian sworn May 28, 2014 (the “**Koulakian Affidavit**”) and my previous affidavits sworn June 24, 2014 (the “**June 24th Affidavit**”) and July 25, 2014 (the “**July 25th Affidavit**”).

10. Copies of the Koulakian Affidavit, the June 24th Affidavit and the July 25th Affidavit without exhibits (collectively, the “**Previous Affidavits**”) are attached to this affidavit as **Exhibits ‘C’-‘E’** respectively. Any capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Previous Affidavits.

STAY PERIOD

11. On July 14, 2014, counsel for the Company, the Monitor and its counsel and 221525 Ontario Limited (the “**Landlord**”) attended a hearing with Justice Wilton-Siegel to update the Court on the status of the proceedings. During such hearing the Court was advised that the Company was likely to seek an extension of the Stay Period when it returned seeking to approve the Transaction resulting out of the SISP.

12. On August 5, 2014, the Company attended before the Court seeking to obtain the Court’s approval of the LSA. The Company informed the Court at that time that an additional attendance would be required prior to the current expiry of the Stay Period and that it was the belief of the Company, in consultation with the Monitor, that any extension of the Stay Period would be best dealt with when there was more accurate

information regarding the cash available and greater certainty regarding the time required to complete these proceedings.

13. The Company now has more information regarding the cash available and can provide a better estimate of the amount of time it thinks will be required to complete these proceedings.

14. The Company has generated approximately \$3.0 million of net positive cash flow since the Initial Order, and KKP appears to have sufficient cash flow to continue to operate to the end of the proposed extension date of November 28, 2014. A copy of the projected cash flow statement is attached to this affidavit as **Exhibit 'F'**.

15. At this point in time, the Company has almost completely wound down all of its operations and has shifted its focus to, among other things, collecting receivables, preparing and filing tax returns, sorting and storing necessary Company records, assisting Infinity in carrying out the LSA, which includes assisting with the auction process and the removal of the equipment, and repairing the Premises. A further extension of the Stay Period is required to allow the Company to finalize these tasks and address the final issues which will arise as the auction concludes and the Assets are removed from the Premises.

16. It is estimated that the process to complete all of these items will continue for at least a few months. As a result, the Company is requesting that the Stay Period be extended to November 28, 2014.

17. The Company has been and is continuing to act in good faith and with due diligence and believes it is in the best interests of KKP and its stakeholders to extend the Stay Period until November 28, 2014 and to continue in these CCAA proceedings.

INTERIM DISTRIBUTION

18. KKP has an excess amount of cash available as a result of the completion of the operations associated with the various accommodation agreements the Company entered into with Rolls-Royce Canada Limited, Siemens Energy Inc. and Pratt & Whitney

Canada Corp (the “**Accommodation Agreements**”) and the deposit and minimum guarantee amount paid to KKP by Infinity pursuant to the terms of the LSA.

19. Details of the obligations to the Secured Lenders are set out in the Koulakian Affidavit filed in support of the Initial Order and attached hereto as Exhibit ‘C’.

20. In summary, the Company’s obligations to the Secured Lenders are governed by the following agreements and other documents (collectively, the “**Credit Agreements**”):

- (a) a General Security and Pledge Agreement dated September 1, 2011, in favour of Bank of Montreal;
- (b) Bank Act Security Notice of Intention dated September 2, 2011 (and related documentation), in favour of Bank of Montreal;
- (c) an Assignment of Material Agreements dated September 1, 2011, in favour of Bank of Montreal;
- (d) a General Security and Pledge Agreement dated September 1, 2011, in favour of the BMO Capital Partners; and
- (e) an Assignment of Material Agreements dated September 1, 2011, in favour of the BMO Capital Partners;

21. As at August 31, 2014, the Company is indebted to the Secured Lenders, pursuant to the Credit Agreements, in the amount of \$13,149,357.59.

22. According to the security review prepared by the Monitor’s counsel, the Secured Lenders, being the primary secured creditors to KKP, have the first in time *Personal Property Security Act* (Ontario) (the “**PPSA**”) registrations against the Company’s assets, and they have requested an interim distribution be made to pay a portion of the outstanding debt owed by the Company to the Secured Lenders.

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

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

24. Xerox has a PPSA registration subsequent to the Secured Lenders for a piece of equipment that the Company has continued to use. Subject to the Monitor obtaining an opinion from its independent counsel that Xerox has a purchase-money security interest in the equipment, it is the intention of the Company to return the equipment to Xerox at the end of the month. The equipment which Xerox has a PPSA registration against was excluded from the auction under the LSA.

25. The Monitor and the Company are unaware of any financial obligations still owing by the Company to Orbian Financial Services II, Inc.

26. River is the main equity holder of the Company. River is aware of these proceedings and has been provided with notice throughout these CCAA proceedings.

27. Given the surplus of cash available, it is appropriate at this time to make an interim distribution to the Secured Lenders of \$6.0 million, subject to a holdback of approximately \$1.77 million (the “**Holdback**”) for payment of wind-down costs or other expenses associated with the completion of the Company’s CCAA proceedings, which includes an amount of \$400,000 on account of potential costs to complete any additional repairs/remediation to the Premises in accordance with the Company’s obligations under its Lease Agreements (as defined below).

28. The Company believes that it is necessary for an amount to be held back from any distribution to pay the expenses incurred by the Company during the CCAA proceedings and which have not yet been paid as well as to ensure that there is a sufficient amount of funds available to pay those expenses which will inevitably be incurred by the Company prior to the conclusion of these CCAA proceedings.

29. It is expected that the Company will be receiving additional funds in the approximate amount of \$1.6 million. As a result, it is also appropriate for the Company to be given the authority to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor, determines are appropriate, subject to the Company maintaining a portion of the Holdback to finalize the wind-down of its operations.

30. The Company's estimate is that the Holdback amount would be a prudent and sufficient amount to retain from the proposed interim distribution to account for the Company's current outstanding expenses and the accrual of future expenses.

LANDLORD AND LEASE

31. On September 1, 2011, the Company entered into a lease agreement (the "**Lease**") with 104 Oakdale Acquisition Corp. (the "**Prior Landlord**") for the lease of the Premises. The Lease was amended by an amendment to lease, entered into as of February 1, 2013 (the "**First Lease Amendment**") and amended further by a letter agreement effective as of May 1, 2014 (the "**Letter Agreement**", together with the First Lease Amendment and the Lease, the "**Lease Agreements**").

32. The Lease, as amended, of the Premises expires September 30, 2014. The Landlord has communicated that it will not extend the Term provided for in the Lease any further and desires to have vacant possession of the Premises immediately following the expiration of the Lease Agreements. The Company believes that it will have vacated the Premises and will deliver the vacant possession to the Landlord in accordance with the Lease Agreements.

33. The Company has prepared a budget and the restoration process of the Premises is underway. The Company estimates that the cost of completing the necessary repairs to restore the Premises will be approximately \$100,000 to \$150,000. The Landlord has expressed that its estimate of the necessary repairs is \$500,000 – the Company does not agree with that estimate. The Landlord and the Company have exchanged multiple letters regarding the legal obligations to repair the Premises upon the expiry of the Lease.

Certain items which the Landlord has requested to be repaired, and which are included as a part of the Landlord's restoration estimate, remain in dispute.

34. It is uncertain when or if the Landlord and the Company will be able to come to a resolution regarding the items which are currently in dispute. I believe that all of the interested parties in these proceedings would like to avoid any unnecessary Court appearances to extend the Stay Period, therefore the Company is requesting an extension of the Stay Period to November 28, 2014 in order to provide time to attempt to negotiate the outstanding issues with the Landlord.

35. I believe that the Company has fully cooperated with the Landlord throughout these proceedings. The Company has in good faith provided the Landlord with updates on the status of the repairs and provided the Landlord with opportunities to inspect the Premises and repairs.

36. The Company fully intends to meet all of its obligations contained within the Lease Agreements and pursuant to the CCAA proceedings. Nothing has come to my attention that indicates that KKP will be unable to meet its obligations to the Landlord.

37. I make this Affidavit in support of the Company's motion and for no improper purpose.

SWORN before me at the City of)
Burlington, in the Province of Ontario, this)
10th day of September, 2014)



A commissioner for taking Affidavits



GARTH WHELDON

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

TAB A

Exhibit "A" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.

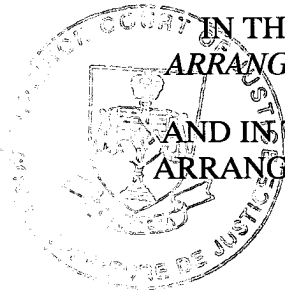
A handwritten signature in black ink, appearing to read 'Thomas James Hamilton', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)	WEDNESDAY, THE 25 th
)	
JUSTICE WILTON-SIEGEL)	DAY OF JUNE, 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**")

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 Garth Wheldon sworn June 24, 2014 (the "**Wheldon Affidavit**") and the Exhibits thereto, the First Report of Richter Advisory Group Inc., in its capacity as Court appointed monitor (the "**Monitor**"), dated June 24, 2014, and on hearing the submissions of counsel for the Applicant, Bank of Montreal and BMO Capital Partners, the Monitor, Siemens Energy Inc., 2215225 Ontario Inc. and no one appearing for any other party although served as it appears from the affidavits of service of Sinikka Berglund-Yates sworn June 24th, 2014;

SERVICE

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

STAY EXTENSION

2. **THIS COURT ORDERS** that the Stay Period provided for in the Initial Order dated May 30, 2014 is hereby extended until and including September 19, 2014, or such later date as this Court may order.

SOLICITATION PROCESS

3. **THIS COURT ORDERS** the solicitation process attached as Exhibit “A” to the Wheldon Affidavit (the “**Solicitation Process**”) is hereby ratified and the Applicant and the Monitor are hereby authorized and directed to implement the Solicitation Process and do all such things as are reasonably necessary to conduct and give full effect to the Solicitation Process and carry out their respective obligations therein.
4. **THIS COURT ORDERS** that the Solicitation Process may be altered or amended by the Applicant, with the consent of the Monitor, in a non-substantive manner to give full or better effect to the Solicitation Process.

ACCOMMODATION AGREEMENTS

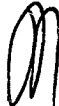
5. **THIS COURT ORDERS** that the accommodation agreement dated June 24, 2014 between Siemens Energy Inc., the Applicant, and Bank of Montreal and BMO Capital Group (the “**Siemens Accommodation Agreement**”) is hereby approved, and the Applicant is hereby authorized to perform their obligations thereunder.
6. **THIS COURT ORDERS** that the accommodation agreement dated June 19, 2014 between Pratt & Whitney Canada Corp. and the Applicant (the “**Pratt Accommodation Agreement**”) is hereby approved, and the Applicant is hereby authorized to perform their obligations thereunder.
7. **THIS COURT ORDERS** that the redaction of the sensitive commercial information in the Siemens Accommodation Agreement and the Pratt Accommodation Agreement as set forth in Exhibit “B” and Exhibit “C” of the Wheldon Affidavit is hereby approved *nunc pro tunc*, and that the unredacted Siemens Accommodation Agreement and schedules

thereto and the unredacted Pratt Accommodation Agreement and the schedules thereto be kept sealed pending further Order of the Court.

GENERAL

8. **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 Siemens Accommodation Agreement, the Pratt Accommodation Agreement, or the Solicitation Process.
9. **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.

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

 JUN 25 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.

	Applicant
	<p data-bbox="365 226 470 718">ONTARIO SUPERIOR COURT OF JUSTICE COMMERCIAL LIST</p> <p data-bbox="511 226 548 718">Proceeding commenced at TORONTO</p>
	<p data-bbox="630 373 703 571">ORDER (June 25, 2014)</p>
	<p data-bbox="784 289 930 688">DENTONS CANADA LLP 77 King Street West, Suite 400 Toronto-Dominion Centre Toronto, ON M5K 0A1</p> <p data-bbox="971 237 1149 688">John Salmas LSUC No: 42336B Tel: (416) 863-4374 Fax: (416) 863-4592 Email: john.salmas@dentons.com</p> <p data-bbox="1190 205 1369 688">Robert J. Kennedy LSUC No: 474070 Tel: (416) 367-6756 Fax: (416) 863-4592 Email: robert.kennedy@dentons.com</p> <p data-bbox="1409 331 1445 688"><i>Solicitors for the Applicant</i></p>

TAB B

Exhibit "**B**" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.

A handwritten signature in dark ink, appearing to read "Tom Hamilton", written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.

)

TUESDAY, THE 5th

)

JUSTICE PENNY

)

DAY OF AUGUST, 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.

APPROVAL AND VESTING ORDER

THIS MOTION made by the applicant, KK Precision Inc. (the "**Applicant**"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), for an order approving the transaction (the "**Transaction**") contemplated by a liquidation services agreement (the "**Liquidation Services Agreement**") between the Applicant and Infinity Asset Solutions Inc. ("**Infinity**" or the "**Liquidator**") dated July 25, 2014 appended to the affidavit of Garth Wheldon, sworn July 25, 2014 (the "**Wheldon Affidavit**"), filed, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Wheldon Affidavit, the first report of Richter Advisory Group Inc. (the "**Monitor**") dated June 24, 2014 (the "**First Report**"), the second report of the Monitor dated July 25, 2014 (the "**Second Report**"), the affidavit of T.J. Tersigni, sworn July 30, 2014, the supplemental affidavit of Garth Wheldon, sworn July 31, 2014 and the supplement to the Second Report of the Monitor, dated July 31, 2014 and on hearing the submissions of counsel for the Applicant, the Monitor, 2215225 Ontario Inc., no one appearing for any other person on the service list, although properly served as appears from the affidavit of Zev Smith sworn July 28, 2014, filed:

1. **THIS COURT ORDERS AND DECLARES** that the time for service of the Notice of Motion and Motion Record herein be and is hereby abridged such that this motion is properly returnable today and that all parties entitled to notice of the Motion have been duly served, and that any requirement for service of the Notice of Motion and Motion Record upon any party other than the parties served is unnecessary and hereby dispensed with and that the service of the Notice of Motion and Motion Record is hereby validated in all respects.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Liquidation Services Agreement by the Applicant is hereby ratified and approved, with such minor amendments as the Applicant, Liquidator or Monitor may deem necessary. The Applicant is hereby authorized and directed to perform the Liquidation Services Agreement and complete the Transaction in accordance with the terms and conditions of the Liquidation Services Agreement including, taking such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction.

3. **THIS COURT ORDERS AND DECLARES** that the Liquidation Services Agreement is hereby approved, and the terms of the Liquidation Services Agreement and the consideration set out in the Liquidation Services Agreement are fair and commercially reasonable and were arrived at in a commercially reasonable manner.

4. **THIS COURT ORDERS** that Infinity is entitled use to the Applicant's premises and is entitled to use the name "KK Precision Inc." and similar derivations in all of its advertising and promotional activities related to the Liquidation Services Agreement.

5. **THIS COURT ORDERS AND DECLARES** that all right, title and interest of the Applicant in and to the Assets (as defined in the Liquidation Services Agreement), shall be sold by Infinity as contemplated by the Liquidation Services Agreement and, upon payment of the applicable purchase price for each of the Assets by Purchasers (as that term is defined in the Liquidation Services Agreement), they shall vest in the applicable Purchaser of such Asset(s) free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), mortgages, charges, hypothecs, estates, trusts or deemed trusts (whether contractual, statutory or otherwise), liens (whether contractual, statutory or otherwise), executions, levies, claims, charges, encumbrances or any other rights, rights of use, claims, disputes and debts of

any person or entity of any kind whatsoever whether legal or equitable, of all persons or entities of any kind whatsoever (collectively, the "**Encumbrances**"), including, but not limited to, any Encumbrances held by or in favour of the parties or entities which are served or whose solicitors are served with the Notice of Motion to approve the Liquidation Services Agreement, and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Assets are hereby expunged and discharged as against the Assets purchased from Infinity in accordance with the Liquidation Services Agreement.

6. **THIS COURT ORDERS AND DIRECTS** that the Net Proceeds (as such term is defined in the Liquidation Services Agreement) distributed to the Applicant under the Liquidation Services Agreement after deduction of the Expense Amount (as that term is defined in the Liquidation Services Agreement) shall stand in the place and stead of the Assets and shall stand charged with all the Encumbrances as existed in respect of the Assets which were released, discharged or otherwise displaced by the sale of the Assets by Infinity and such Encumbrances on the Net Proceeds shall enjoy the same priorities as each such Encumbrance had in respect of the Assets as of the date of the Order of the Court directing the same, as if the sale of the Assets had not occurred, but the holder of any such Encumbrance shall have no further right in or against, or recourse to, the Assets.

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

8. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Applicant and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Applicant;

the Liquidation Services Agreement and the Transaction shall be binding on any trustee in bankruptcy that may be appointed in respect of the Applicant and shall not be void or voidable by creditors of the Applicant, nor shall it constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

9. **THIS COURT ORDERS** that nothing herein contained shall require the Liquidator to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property (as defined in the Initial Order dated May 30, 2014) 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 Infinity from any duty to report or make disclosure imposed by applicable Environmental Legislation. Infinity, shall not, as a result of this Order or anything done in pursuance of Infinity's duties and powers hereunder or under the Liquidation Services Agreement, be deemed in Possession of any Property within the meaning of any Environmental Legislation, unless it is actually in possession.

10. **THIS COURT ORDERS** that Infinity, shall incur no liability or obligation as a result of its appointment or carrying out the provisions of the Liquidation Services Agreement, save and except for (i) any gross negligence or wilful misconduct on its part, and (ii) any liabilities or obligations owing to the Company under the Liquidation Services Agreement, or in connection therewith.

11. **THIS COURT ORDERS** that the redaction of the sensitive commercial information in the Liquidation Services Agreement and the schedules thereto as set forth in Exhibit "A" of the Wheldon Affidavit is hereby approved *nunc pro tunc*,

12. **THIS COURT ORDERS** that the (i) summary of bids pursuant to the Solicitation Process attached as Confidential Exhibit '1' to the Wheldon Affidavit and (ii) the unredacted Liquidation Services Agreement attached as Confidential Exhibit '2' to the Wheldon Affidavit be kept sealed pending further Order of the Court or the completion of the auction process as outlined within the Liquidation Services Agreement.



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

AUG - 5 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.

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

APPROVAL AND VESTING ORDER
(August 5, 2014)

DENTONS CANADA LLP
77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON M5K 0A1

John Salmas
LSUC No: 42336B
Tel: (416) 863-4374
Fax: (416) 863-4592
Email: john.salmas@dentons.com

Robert J. Kennedy
LSUC No: 474070
Tel: (416) 367-6756
Fax: (416) 863-4592
Email: robert.kennedy@dentons.com

Solicitors for the Applicant

TAB C

Exhibit "C" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.

A handwritten signature in black ink, appearing to read "Thomas James Hamilton", written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

**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

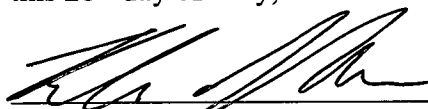
48. The Company is seeking approval of the KERP, as set out in the Accommodation Agreement. If approved, the employees, each of who is considered by the Company to be critical to the successful completion of these CCAA proceedings will participate in the KERP (the “**KERP Employees**”).
49. The KERP 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.)

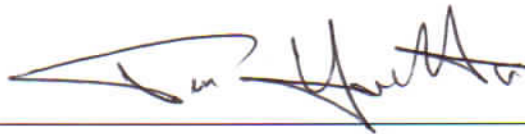

Commissioner for Oaths in and for the
Province of Ontario

Christopher Blake Moran


GEORGE KOULAKIAN

TAB D

Exhibit "D" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.

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

Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

**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.**

APPLICANTS

**AFFIDAVIT OF GARTH WHELDON
(Sworn June 24th, 2014)**

I, Garth Wheldon, of the City of Burlington, in the Province of Ontario, **SOLEMNLY SWEAR AND SAY:**

1. I am a managing director of MVM Industrial Services Limited, which is a third party providing consulting services to KK Precision Inc. (the "**Company**" or "**KKP**") pursuant to a Court approved advisory services agreement, and as such, I have personal knowledge of the matters to which I hereinafter deposed to, except where stated to be based on information and belief, in which case I verily believe the same to be true.
2. The affidavit is sworn in support of the motion filed by KKP in these proceedings on June 24th, 2014 (the "**Motion**"), for the following relief:
 - (a) an Order ratifying the Solicitation Process (as defined herein) and authorizing and directing KKP and the Monitor (as defined herein) to do all such things as are reasonably necessary to conduct and give full effect to the Solicitation Process and carry out their respective obligations therein;
 - (b) an Order approving the accommodation agreement dated June 24th, 2014 between Siemens Energy Inc. ("**Siemens**"), KKP, and Bank of Montreal and BMO Capital

Partners, substantially in the form attached hereto as **Exhibit “B”** (the “**Current Siemens Accommodation Agreement**”);

- (c) an Order approving the accommodation agreement dated June 19th, 2014 between Pratt & Whitney Canada Corp. (“**Pratt**”) and KKP (the “**Pratt Accommodation Agreement**”);
 - (d) an Order sealing the Current Siemens Accommodation Agreement schedules and Pratt Accommodation Agreement schedules, together with an Order approving the Company’s redaction of the sensitive commercial information contained in the Accommodation Agreements (as defined herein), *nunc pro tunc*;
 - (e) an Order granting an extension to the stay period (the “**Stay Period**”) granted in the initial order dated May 30, 2014 (the “**Initial Order**”), from June 29, 2014 to September 19, 2014; and
 - (f) such further and other relief as this Honourable Court may deem just.
3. I have had the opportunity to review the first report (the “**First Report**”) of Richter Advisory Group Inc., in its capacity as court appointed monitor in these proceedings (the “**Monitor**”), and I agree with the summaries and the recommendation contained therein.

SOLICITATION PROCESS

4. As noted in my Affidavit sworn May 28, 2014 (the “**May Affidavit**”), the Company has identified a total of 57 potential purchasers for all or part of the KKP assets (the “**Assets**”).
5. On June 16, 2014, the Company, in consultation with the Monitor, delivered a request for offers to purchase to a group of potential purchasers that either previously expressed prior interest in purchasing the Assets (which included some of the aforementioned 57 potential purchasers) or have been identified by the Company to be strategic purchasers (the “**Interested Parties**”). The request for offers to purchase (the “**Solicitation Letter**”) sets out the terms and conditions associated with the submission of an offer to purchase (an “**Offer**”), imposing a deadline for receipt for Offers before 5:00 p.m. (eastern) on

July 7, 2014 (the “**Solicitation Process**”). Attached and marked as **Exhibit “A”** is a true copy of the Solicitation Process.

6. Given that the Company’s lease extension expires on September 30, 2014, it was imperative that the Company promptly proceed with the Solicitation Process in order to provide a sufficient period of time to:
 - (a) allow the Interested Parties to evaluate the Assets;
 - (b) receive Offers;
 - (c) negotiate a binding and definitive asset purchase agreement;
 - (d) obtain Court approval in respect of a proposed transaction; and
 - (e) facilitate the successful purchaser’s timely removal of the Assets from the operating premises of the Company (on or before September 30, 2014).
7. I verily believe that the Solicitation Process establishes a fair, reasonable and open process for all parties that have an interest in the Company and that may ultimately become involved, and is a critical component in the advancement of these CCAA proceedings.

ACCOMODATION AGREEMENT

8. The Company is also seeking approval of the Current Siemens Accommodation Agreement and the Pratt Accommodation Agreement (collectively, the “**Accommodation Agreements**”). Salient points of each of the Accommodation Agreements include:
 - (a) KKP continuing the manufacturing of component parts or assembled goods for Siemens and Pratt;
 - (b) the agreement of Siemens and Pratt to pay:
 - (i) the existing accounts receivable due and owing to KKP; and

- (ii) for the components parts and / or assembled goods for the duration of the term of each of the agreements.

Attached and marked as **Exhibit "B"** is a true copy of the Current Siemens Accommodation Agreement, without agreement schedules, which remains subject to modification and finalization of the schedules and attached and marked as **Exhibit "C"** is a true copy of the Pratt Accommodation Agreement, without agreement schedules.

- 9. The Accommodation Agreements provide for the ongoing support and co-operation from Siemens and Pratt during these CCAA proceedings. I am of the view that, in the circumstances, the approval of the Accommodation Agreements is justified. The Monitor also supports the approval of the Accommodation Agreements.
- 10. As a result of the sensitive commercial information contained in the schedules attached to each of the Accommodation Agreements, the Company is seeking a sealing Order with respect to the agreements schedules and an Order approving the redaction of the sensitive commercial information contained in the Accommodation Agreements. The Current Siemens Accommodation Agreement schedules are in the process of being finalized which should be complete prior to the Motion.

STAY EXTENSION

- 11. Since the granting of the Initial Order, the Company has worked closely with the Monitor and has been able to stabilize its operations, communicate with its stakeholders, take the necessary steps to protect value in the Company the Assets, negotiate the terms of the Accommodation Agreements, and develop and implement the Solicitation Process.
- 12. From the date of the Initial Order, the Company's operations have stabilized and continue to generate cash flow sufficient to support this CCAA process. A further extension to the Stay Period is required to finalize and carry out the Accommodation Agreements, and administer the Solicitation Process.
- 13. Attached and marked as **Exhibit "D"** is a true copy of the cash flow forecast appended to the May Affidavit ending September 19, 2014. I have reviewed this forecast and verily

believe that this forecast remains fair and reasonable and demonstrates the ability of the Company to continue operations during the proposed extension to the Stay Period.

14. KKP has acted and continues to act in good faith and with due diligence. I verily believe it is in the best interests of KKP and its stakeholders to continue in these proceedings and that it is appropriate in the circumstance to extend the Stay Period to September 19, 2014.

MISCELLANEOUS

15. Attached and marked as **Exhibit "E"** is a true copy of correspondence received from Minden Gross LLP, solicitors to 2215225 Ontario Inc. ("**2215225**"). 2215225 recently acquired the operating premises that KKP leases and is now the landlord; the lease particulars are set out in the May Affidavit. I can advise that KKP will continue to observe and comply with the terms and conditions of the subject lease.
16. I make this affidavit in support of an application for the relief set out in paragraph 2 above.

SWORN BEFORE ME at Toronto, Ontario)
this 24th day of June, 2014.)



Commissioner for Oaths in and for the
Province of Ontario



GARTH WHELDON

Christopher Blake Moran

TAB E

Exhibit "E" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.

A handwritten signature in dark ink, appearing to read 'Thomas James Hamilton', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

**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.**

APPLICANTS

**AFFIDAVIT OF GARTH WHELDON
(Sworn July 25, 2014)**

I, Garth Wheldon, of the City of Burlington, in the Province of Ontario,
SOLEMNLY SWEAR AND SAY:

1. I am a managing director of MVM Industrial Services Limited, which is a third party providing consulting services to KK Precision Inc. (the "**Company**" or "**KKP**") pursuant to a Court-approved advisory services agreement, and as such, I have personal knowledge of the matters to which I hereinafter deposed to, except where stated to be based on information and belief, in which case I verily believe the same to be true.

2. This affidavit is sworn in support of the KKP's motion, returnable August 1, 2014 (the "**Motion**"), for relief which includes the following:

- (a) an Order ratifying and approving the Liquidation Services Agreement dated July 25, 2014 between the Company and Infinity Asset Solutions Inc. ("**Infinity**"), substantially in the form attached hereto as **Exhibit "A"** (the "**Liquidation Services Agreement**") and approving the transaction (the "**Transaction**") contemplated therein in respect of the Assets (as such term is defined in the Liquidation Services Agreement);

- (b) an Order vesting all of the Company's right, title and interest in and to the Assets (as defined in the Liquidation Services Agreement), free and clear of any and all encumbrances, in and to the applicable purchaser.
- (c) an Order sealing the summary of bids received through the Solicitation Process (defined below);
- (d) an Order sealing the unredacted Liquidation Services Agreement, together with an Order approving the Company's redaction of the sensitive commercial information contained in the Liquidation Services Agreement, *nunc pro tunc*; and
- (e) such further and other relief as this Honourable Court may deem just.

3. I have had the opportunity to review a draft of the second report of Richter Advisory Group Inc., in its capacity as Court-appointed monitor in these proceedings ("**Richter**" or the "**Monitor**") dated July 25, 2014 (the "**Second Report**"), and I agree with the summaries and the recommendation contained therein.

BACKGROUND

4. On May 30, 2014, the Ontario Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting Company protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter was appointed as the Court-appointed monitor. The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014.

Solicitation Process

5. As noted in the affidavit of George Koulakian sworn May 28, 2014, the Company originally identified a total of 57 potential purchasers for all of part of the KKP assets (the "**Assets**"). The Company completed a comprehensive sales process (the "**Initial Sales Process**") from February to April 2014 that generated interest from several parties, but did not result in a firm deal for the sale of the Company's business and/or assets.

6. As such, given the Company's limited liquidity and the fast approaching expiration of the lease for the Premises, the Company, with the assistance of the Monitor, undertook a short sales process (the "**Solicitation Process**").

7. The Company, in consultation with the Monitor, assembled a list of potential interested parties, including many of the strategic/financial parties that participated in the Initial Sales Process and parties that regularly liquidate assets in insolvency proceedings (collectively, the "**Prospective Purchasers**")

8. On June 16, 2014, the Company distributed an offer solicitation letter to the Prospective Purchasers detailing the opportunity to purchase the Company's business and/or assets (the "**Offer Solicitation Letter**"). Included with the Offer Solicitation Letter was a schedule detailing the Company's machinery/equipment. In total the Company contacted fifty-four (54) parties to advise of the opportunity to acquire the Company and/or its assets. The Solicitation Letter set out the terms and conditions associated with the submission of an offer to purchase and imposed a deadline for receipt of an offer before 5:00 p.m. (Eastern) on July 7, 2014. A copy of the Solicitation Letter is attached to this may affidavit as **Exhibit 'B'**.

9. Given that the Company's lease extension expires on September 30, 2014, it was imperative that the Company promptly proceed with the Solicitation Process in order to provide a sufficient period of time to:

- (a) allow the Interested Parties to evaluate the Assets;
- (b) receive Offers (as defined in the Solicitation Process);
- (c) negotiate a binding and definitive asset purchase agreement;
- (d) obtain Court approval in respect of a proposed transaction; and
- (e) facilitate the successful purchaser's timely removal of the Assets from the operating premises of the Company known municipally as 104 Oakdale Road, North York (the "**Premises**") (on or before September 30, 2014).

10. On June 25, 2014, this Honourable Court granted an order (the “**SISP Order**”) which approved the Solicitation Process for all of the Assets, such process was described in the Monitor’s first report to the Court dated June 24, 2014 (the “**First Report**”). I further confirm that the Company has conducted the Solicitation Process pursuant to the SISP Order with the assistance of the Monitor.

11. A copy of the First Report is attached to this my affidavit as **Exhibit ‘C’**

12. Six (6) offers (the “**Offers**”) to purchase and/or auction the Company’s assets were received prior to the Offer Deadline.

13. Extending the Solicitation Process to obtain further offers was not an option given (i) the time constraints to vacate the Premises and (ii) the expense involved in transporting and storing the equipment indefinitely at a new storage facility pending any future sale.

14. The Company has no reason to believe any new expressions of interest, offers or bids will be forthcoming in a reasonable amount of time to purchase all of the Company’s Assets on mass.

Stay Period

15. On June 25, 2014, the Court issued an order which, among other things, extending the Stay Period to September 19, 2014 (the “**Stay Period**”).

16. On July 14, 2014, the Company, the Monitor and the Landlord attended a hearing with Justice Wilton-Siegel to update the court on the status of proceedings. During that hearing the Court was advised that the Company was likely to seek an extension of the Stay Period when it returned seeking to approve the Transaction resulting out of the SISP.

17. The Company, in consultation with the Monitor, beleives that any extension of the Stay Period is best dealt with in early to mid-September. The Company intends to seek a stay extention at that time because it will have more accurate information regarding the

status of available cash and greater certainty regarding the time required to complete these proceedings.

Landlord and Lease

18. On September 1, 2011, the Company entered into a lease agreement (the “**Lease**”) with 104 Oakdale Acquisition Corp. (the “**Prior Landlord**”). The Lease was amended by an amendment to lease, entered into as of February 1, 2013 (the “**First Lease Amendment**”) and amended further by a letter agreement effective as of May 1, 2014 (the “**Letter Agreement**”, together with the First Lease Amendment and the Lease, the “**Lease Documents**”). A copy of the Lease Documents are attached to this my affidavit as **Exhibit ‘D’**.

19. As stated above, the lease of the Premises expires September 30, 2014. 2215225 Ontario Inc. (the “**Landlord**”) had previously communicated that it will not extend the Term provided for in the lease any further and desired to have vacant possession of the Premises immediately following the expiration of the lease. However, the Landlord has recently suggested that it might be willing to entertain the idea of an extension of the lease term.

20. On July 16, 2014 the Landlord attended the Premises to inspect the state of the repair of the Premises and identify any items that it believed needed to be corrected, repaired or restored.

21. On July 18, 2014 the Landlord sent an email (the “**Landlord Email**”) to the Monitor addressing 15 issues with the current state of the Premises that it stated “need to be corrected, repaired or restored in order for the Company’s vacation of the Premises to be in accordance with the terms of the lease which govern the Premises”. A true copy of the Landlord Email is attached to this my affidavit as **Exhibit ‘E’**.

22. On July 24, 2014 the Company responded to the Landlord Email (the “**Response Letter**”). The Response Letter expressed the Company’s position that “that the Return State is the state of the Premises at September 1, 2011 – being the “commencement of the Term” under the Lease Documents”. Notwithstanding, in an effort to deal with all

alleged Premises rectification issues, the Company indicated that it was agreeable to make certain of the requested repairs to the Premises. A true copy of the Response Letter is attached to this my affidavit as **Exhibit 'F'**.

APPROVAL AND VESTING ORDER

23. The Company, in consultation with the Monitor, reviewed the offers received from 6 potential buyers through the Solicitation Process. Attached hereto as **Confidential Exhibit '1'** is a chart comparing the offers received through the Solicitation Process.

24. Following that review, The Company engaged Infinity to act as an agent for the company to sell all of the Assets of the Company via an auction sales process in order to facilitate the sale of the entirety of the Assets and the vacation of the Premises before the expiry of the lease Term (as defined in the Lease Documents).

25. Infinity was selected to act as the Liquidator because it provided the greatest amount of consideration amongst all of the bids received and acknowledged that it could meet the September 30, 2014 deadline for completing the transaction.

26. On July 25, 2014, the Company and Infinity entered into a Liquidation Services Agreement. A redacted copy of the Liquidation Services Agreement is attached hereto as Exhibit 'A' and an unredacted copy of the Liquidation Services Agreement is attached hereto as **Confidential Exhibit '2'**.

27. The Transaction outlined in the Liquidation Services Agreement provides for the sale of all of the Assets on the open market in the most efficient and expedient manner given time limitations on completing the sale.

28. The Transaction is conditional upon, among other things, the Court granting the Approval and Vesting Order being sought by the Company. Therefore, the Company is requesting that this Honourable Court recognize and approve the Transaction and grant an order approving the Liquidation Services Agreement and the Transaction set out

therein and vesting title to purchasers upon their payment of the purchase price to the Liquidator.

29. Given the restrictions on time to effectuate a sale of the Assets, I believe that the auction process contemplated by the Liquidation Services Agreement provides the best opportunity to attain the highest value for the Assets by compelling Interested Parties to negotiate against each other to purchase the Assets.

30. I also believe that the Liquidation Services Agreement represents minimal risk for the Company as it includes a Net Minimum Guarantee (as defined therein) to be paid by Infinity to the Company. The Liquidation Services Agreement also provides that the Company will receive a substantial deposit upon the execution of the Liquidation Services Agreement and will receive to the unpaid Net Minimum Guarantee by no later than two business days prior to the date of the Auction, which has been scheduled by the Liquidator for September 10, 2014.

31. I have been advised by counsel and the Monitor that the terms of the Liquidation Services Agreement are similar to those terms and conditions contained in other auction services agreements approved by this Honourable Court.

32. As the Liquidation Services Agreement and the schedules thereto contains commercially sensitive information which may have an impact on the realization on the Assets if made available to the public. Further, in the event that this Court approves the Transaction and the Transaction does not close, the Company is of the view that efforts to remarket its assets may be impaired if either of the Confidential Exhibits are made public. The Company requests that the unredacted Liquidation Services Agreement and the chart comparing the offers received through the Solicitation Process be subject to a sealing Order of the Court until the auction is completed.

33. All of the parties that would otherwise be entitled to notice under any of the provisions of the CCAA, the *Bankruptcy and Insolvency Act* (Canada) or the *Personal Property and Security Act* (Ontario) (the “PPSA”) that could exercise redemption rights under such statutes are already parties to these proceedings or are being given notice of

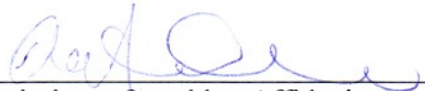
the Motion. A copy of the PPSA search results in respect of the Company with a file currency date of May 5, 2014, is attached hereto as **Exhibit 'G'**.

34. I verily believe that the Liquidation Services Agreement establishes a fair, reasonable and open process for all parties that have an interest in the Company and that may ultimately become involved, and is a critical component in the advancement of these CCAA proceedings.

35. The Monitor also supports the approval of the Liquidation Services Agreement.

36. I make this Affidavit in support of the Company's motion and for no improper purpose.

SWORN before me at the City of)
Burlington, in the Province of Ontario, this)
25th day of July, 2014)



A commissioner for taking Affidavits



GARTH WHELDON

Aolfe Catherine Quinn,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires May 1, 2017.

TAB F

Exhibit "F" to the Affidavit of Garth Wheldon,
sworn before me this 10th day of September, 2014.



Commissioner for Taking Affidavits, etc.

Thomas James Hamilton,
a Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires March 14, 2016.

KK Precision Inc.
Cash Flow Forecast

From 09/06/2014 to 11/28/2014

(\$000's)

	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	
	12-Sep	19-Sep	26-Sep	03-Oct	10-Oct	17-Oct	24-Oct	31-Oct	07-Nov	14-Nov	21-Nov	28-Nov		
Cash Receipts	\$ 3,265	\$ 1,626	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,891	1
Cash Disbursements														
Operating Expenses	(30)	(30)	(30)	(30)	-	-	-	-	-	-	-	-	(120)	2
Payroll & Benefits	-	(42)	-	(39)	-	(12)	-	(12)	-	-	-	-	(105)	3
Retention Payments	-	-	-	(29)	-	-	-	-	-	-	-	-	(29)	3
Rent & Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	
Utilities & Insurance	(10)	-	-	(16)	-	-	(10)	(6)	-	-	-	-	(42)	
Sales Tax Remittances	-	-	(243)	-	-	-	-	-	-	-	-	-	(243)	
Site Remediation Costs	(35)	-	(150)	-	-	-	-	-	-	-	-	-	(185)	4
Professional Fees	-	(148)	-	-	-	(93)	-	-	-	-	(113)	-	(353)	
Other / Contingency	(10)	(10)	(10)	(10)	(10)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(85)	5
Total Disbursements	\$ (85)	\$ (230)	\$ (433)	\$ (124)	\$ (10)	\$ (110)	\$ (15)	\$ (23)	\$ (5)	\$ (5)	\$ (118)	\$ (5)	\$ (1,161)	
Net Cash Flow	\$ 3,180	\$ 1,396	\$ (433)	\$ (124)	\$ (10)	\$ (110)	\$ (15)	\$ (23)	\$ (5)	\$ (5)	\$ (118)	\$ (5)	\$ 3,729	
Cash - opening	\$ 4,499	\$ 7,679	\$ 9,075	\$ 8,642	\$ 8,519	\$ 8,509	\$ 8,399	\$ 8,384	\$ 8,361	\$ 8,356	\$ 8,351	\$ 8,233	4,499	
Cash - closing	\$ 7,679	\$ 9,075	\$ 8,642	\$ 8,519	\$ 8,509	\$ 8,399	\$ 8,384	\$ 8,361	\$ 8,356	\$ 8,351	\$ 8,233	\$ 8,228	\$ 8,228	

Notes:

1. Primarily comprised of collections (including HST) on completed component parts delivered to Rolls Royce, sales (including HST) of WIP parts to Rolls Royce, proceeds from the sale of intellectual property to Rolls Royce, reimbursement of employee retention payments from Rolls Royce, and Infinity's payment of the net minimum guarantee associated with the auction of the Company's assets.

2. Includes payment of all post-filing A/P as well as estimated costs for document storage/destruction, equipment leased during September and all other operating costs required to wind down the Company's operations.

3. Primarily represents payroll costs and retention payments related to the seven remaining employees assisting with post-production wind down activities.

4. Includes estimated costs for repairs the Company has agreed to make to the Premises prior to vacating the Premises on September 30, 2014.

5. Reflects a \$10,000 per week contingency amount for the first five weeks in the forecast, and \$5,000 per week thereafter.

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

**AFFIDAVIT OF GARTH WHELDON
(Sworn September 10, 2014)**

DENTONS CANADA LLP

77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON M5K 0A1

John Salmas (LSUC 42336B)

Tel: (416) 863-4374

Fax: (416) 863-4592

Email: john.salmas@dentons.com

Robert J. Kennedy (LSUC 47407O)

Tel: (416) 367-6756

Fax: (416) 863-4592

Email: robert.kennedy@dentons.com

Solicitors for the Applicant

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

**MOTION RECORD
(returnable September 16, 2014)**

DENTONS CANADA LLP

77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON M5K 0A1

John Salmas (LSUC 42336B)

Tel: (416) 863-4374

Fax: (416) 863-4592

Email: john.salmas@dentons.com

Robert J. Kennedy (LSUC 47407O)

Tel: (416) 367-6756

Fax: (416) 863-4592

Email: robert.kennedy@dentons.com

Solicitors for the Applicant