

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of November 10, 2006

Among:

SPINRITE LIMITED PARTNERSHIP

as Borrower

- and -

SPINRITE CORP. (formerly 3096487 Nova Scotia Company)

as Guarantor

- and -

SPINRITE HOLDING LP

as Guarantor

- and -

SPINRITE GP INC.

as Guarantor

- and -

SPINRITE TRUST

as Guarantor

- and -

THE BANK OF NOVA SCOTIA

as Lender

- and -

CANADIAN IMPERIAL BANK OF COMMERCE

as Lender

- and -

BANK OF MONTREAL

as Lender

- and -

SUCH OTHER LENDERS AS MAY BECOME PARTY HERETO

as Lenders

- and -

THE BANK OF NOVA SCOTIA

as Administrative Agent

- and -

CANADIAN IMPERIAL BANK OF COMMERCE

as Syndication Agent

GOWLING LAFLEUR HENDERSON LLP

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THIS AMENDED AND RESTATED CREDIT AGREEMENT dated as of
November 10, 2006

AMONG:

SPINRITE LIMITED PARTNERSHIP, a limited partnership existing under the laws of the
Province of Manitoba, as Borrower

OF THE FIRST PART

SPINRITE CORP. (formerly 3096487 Nova Scotia Company), an unlimited liability company
existing under the laws of the Province of Nova Scotia, as a Guarantor

OF THE SECOND PART

SPINRITE HOLDING LP, a limited partnership existing under the laws of the Province of
Manitoba, as a Guarantor

OF THE THIRD PART

SPINRITE GP INC., a corporation existing under the laws of the Province of Nova Scotia, as a
Guarantor

OF THE FOURTH PART

SPINRITE TRUST, a trust established under the laws of the Province of Ontario, as a Guarantor

OF THE FIFTH PART

THE BANK OF NOVA SCOTIA, as a Lender

OF THE SIXTH PART

CANADIAN IMPERIAL BANK OF COMMERCE, as a Lender

OF THE SEVENTH PART

BANK OF MONTREAL, as a Lender

OF THE EIGHTH PART

SUCH OTHER LENDERS AS MAY BECOME PARTIES HERETO, as Lenders

OF THE NINTH PART

THE BANK OF NOVA SCOTIA, as Administrative Agent

OF THE TENTH PART

- and -

CANADIAN IMPERIAL BANK OF COMMERCE, as Syndication Agent

OF THE ELEVENTH PART

WHEREAS the Lenders established certain credit facilities in favour of the Borrower pursuant to a credit agreement dated as of February 8, 2005 (the “**Original Credit Agreement**”) among Spinrite Limited Partnership, as borrower, the other Loan Parties party thereto, as guarantors, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal and such other lenders as may become party thereto from time to time, as lenders, The Bank of Nova Scotia, as administrative agent, and Canadian Imperial Bank of Commerce, as syndication agent (together with its successors, assigns and any replacements thereof being the “**Syndication Agent**”) (the Administrative Agent and the Syndication Agent being collectively the “**Agents**”);

AND WHEREAS the Original Credit Agreement was amended by way of Amendment No. 1 to Credit Agreement dated as of March 11, 2005 among the parties thereto (“**Amendment No. 1**”), Amendment No. 2 to Credit Agreement dated as of July 11, 2005 among the parties thereto (“**Amendment No. 2**”) and Amendment No. 3 to Credit Agreement dated as of May 6, 2006 among the parties thereto (“**Amendment No. 3**”) (the Original Credit Agreement, Amendment No. 1, Amendment No. 2 and Amendment No. 3 being collectively referred to herein as the “**Existing Credit Agreement**”);

AND WHEREAS the Loan Parties have requested that the Agents and the Lenders agree to certain amendments to the Existing Credit Agreement;

AND WHEREAS effective on the Closing Date: (i) the Existing Credit Agreement is to be amended and restated pursuant to this Agreement, (ii) all Commitments under and as defined in the Existing Credit Agreement shall continue as Commitments under this Agreement (to the extent not cancelled in accordance with this Agreement), (iii) all Outstanding Obligations under and as defined in the Existing Credit Agreement of the Borrower shall continue as Outstanding Obligations of the Borrower under this Agreement (to the extent not repaid in accordance with this Agreement); and (iv) all Security Documents entered into under or pursuant to the Existing Credit Agreement and the security interests created thereby shall continue to secure the Outstanding Obligations under this Agreement and will not be released, cancelled or discharged;

AND WHEREAS it is not the intention of the parties to this Agreement that this agreement shall novate the Existing Credit Agreement.

NOW THEREFORE for valuable consideration (the receipt and sufficiency of which are acknowledged by each of the parties to this Agreement) the parties to this Agreement agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions

In this Agreement, unless the context otherwise requires:

- (a) “**Accommodation**” shall mean Loans, Bankers’ Acceptances or Letters of Credit made, deemed made, accepted, purchased or issued, as the case may be, by the Lenders or, where so indicated, by an individual Lender, under a Credit or any combination thereof and “type” of Accommodation shall refer to whether any

particular Accommodation is a Prime Rate Loan, a U.S. Base Rate Loan, a LIBOR Loan, a Bankers' Acceptance (including a BA Loan) or a Letter of Credit (and, for greater certainty, as at and subsequent to the Closing Date: (x) the letters of credit and letters of guarantee issued by The Bank of Nova Scotia as listed in Schedule 1.1(b) shall be continued under this Agreement and shall be deemed to be Letters of Credit issued in accordance with this Agreement and Accommodation under the Operating Credit and, as at and subsequent to the Closing Date, The Bank of Nova Scotia shall be deemed to be an Issuing Bank hereunder in respect of such letters of credit and letters of guarantee and the terms and provisions of this Agreement applicable to Letters of Credit shall apply in respect of such letters of credit and letters of guarantee as at and subsequent to the Closing Date, and (y) notwithstanding any other provision of this Agreement or any other Loan Document, Accommodation by way of LIBOR Loans shall not be made by any Lender under this Agreement or any other Loan Document).

- (b) **"Account Debtor"** shall mean any Person who is obligated pursuant to any Receivable to the Borrower or any of its Subsidiaries.
- (c) **"Accumulated Distributable Amount"** means, for any Fiscal Quarter of the Borrower (the **"Relevant Financial Quarter"**) beginning on or after January 1, 2005, the amount which is equal to: (i) the aggregate of the Quarterly Distributable Amounts for all Fiscal Quarters of the Borrower beginning January 1, 2005 and ending the Fiscal Quarter of the Borrower immediately prior to the Fiscal Quarter for which the Aggregate Distributable Amount is then being calculated (the **"Prior Quarter End"**), less (ii) the aggregate amount of the Distributions declared payable by any Loan Party to the Fund and to the holders of the Subordinated Holding LP Units or paid to the Administrative Agent hereunder pursuant to Section 5.3(a)(iii) on or prior to the then applicable Prior Quarter End (it being agreed that the Accumulated Distributable Amount for any Fiscal Quarters of the Borrower beginning prior to February 8, 2005 is \$nil and beginning prior to November 10, 2006 is \$nil).
- (d) **"Acquisition"** shall mean, with respect to any Credit Party, any investment in or purchase or other acquisition of: (i) some or all of the Capital Stock of any other Person, or (ii) all or substantially all of the property or assets of any other Person.
- (e) **"Acquisition Agreement"** shall mean the acquisition agreement dated on or about January 28, 2005 pursuant to which the Trust indirectly acquired the Ordinary Holding LP Units indirectly held by Delaware LP, Spinrite Management LP and the Management Corporations.
- (f) **"Administrative Agent"** or **"Agent"** shall mean The Bank of Nova Scotia in its capacity as administrative agent under the Loan Documents or such other financial institution as may be appointed as the successor Administrative Agent in the manner and to the extent described in the Provisions.

- (g) **“Administrative Agent’s Payment Branch”** shall mean the office of the Administrative Agent at the Regional Commercial Banking Centre, 101 Frederick Street, Suite 700, Frederick Tower, Kitchener, Ontario, N2H 6R2 or such other office of the Administrative Agent in Canada as the Administrative Agent may from time to time designate in writing to the Borrower.
- (h) **“Affiliate”** shall have the meaning specified in Schedule A hereto and **“Affiliated”** shall have an analogous meaning.
- (i) **“Affiliated Party”** shall have the meaning specified in Section 9.2(c).
- (j) **“Aggregate Distributable Amount”** means, for any Fiscal Quarter of the Borrower commencing on or after January 1, 2005, an amount equal to the sum of: (a) the Quarterly Distributable Amount for such Fiscal Quarter plus (b) the Accumulated Distributable Amount for such Fiscal Quarter.
- (k) **“Agreement”** shall have the meaning specified in Schedule A attached hereto.
- (l) **“Applicable Law”** shall have the meaning specified in Schedule A hereto.
- (m) **“Applicable LC Fee Rate”** shall have the meaning specified in Section 4.6(b).
- (n) **“Applicable Loan Spread”** shall have the meaning specified in Section 4.1.
- (o) **“Applicable Reference Rate”** for a type of Loan shall mean:
- (i) with respect to Prime Rate Loans, the Prime Rate in effect from time to time;
 - (ii) with respect to U.S. Base Rate Loans, the U.S. Base Rate in effect from time to time; and
 - (iii) with respect to LIBOR Loans during any applicable LIBOR Period, the LIBOR determined for such LIBOR Period in accordance with the provisions of this Agreement.
- With respect to Prime Rate Loans and U.S. Base Rate Loans, the Applicable Reference Rate will change automatically without notice to the Borrower as and when the Prime Rate and the U.S. Base Rate, as the case may be, change.
- (p) **“Applicable Stamping Fee”** shall have the meaning specified in Section 4.5.
- (q) **“Applicable Standby Fee Rate”** shall have the meaning specified in Section 4.7(a).
- (r) **“Asset Sale”** shall mean any sale, transfer, lease, sale and leaseback, conveyance or other disposition of any property or other assets of any nature or kind by a Loan Party or a series of related Asset Sales.

- (s) **"Assignment and Assumption"** shall have the meaning specified in Schedule A attached hereto.
- (t) **"BA Discount Proceeds"** shall mean, with respect to any Bankers' Acceptance, an amount (rounded to the nearest full cent), calculated on the applicable Borrowing Date which is equal to the face (or principal) amount of such Bankers' Acceptance divided by the sum of one plus the product of: (i) the BA Discount Rate applicable to such Bankers' Acceptance multiplied by (ii) a fraction, the numerator of which is the number of days in the term of such Bankers' Acceptance and the denominator of which is 365.
- (u) **"BA Discount Rate"** means the BA Schedule I Discount Rate or BA Non-Schedule I Discount Rate, as the case may be.
- (v) **"BA Loan"** shall have the meaning ascribed thereto in Section 2.8(l).
- (w) **"BA Non-Schedule I Discount Rate"** means, with respect to an issue of Bankers' Acceptances with the same maturity date to be accepted by any Lender that is not a Schedule I Lender, including, for certainty, all Non BA Lenders, the lesser of: (i) the discount rate of such Lender (if any) determined in accordance with its normal practice at or about 10:00 a.m. on the date of issue and acceptance of such Bankers' Acceptances for bankers' acceptances having a comparable face value and an identical maturity date to the face value and maturity date of such issue of Bankers' Acceptances; and (ii) the BA Schedule 1 Discount Rate plus 0.10% per annum.
- (x) **"BA Schedule I Discount Rate"** means, with respect to an issue of Bankers' Acceptances with the same maturity date to be accepted by a Schedule I Lender hereunder, the discount rate per annum, calculated on the basis of a year of 365 days: (i) equal to, as determined by the Administrative Agent, the arithmetic average (rounded to the nearest multiple of 0.01% with 0.005% being rounded up) of the discount rates of the Schedule I Lenders that appear on the Reuters Screen CDOR Page (or any page substituted therefor) for the Schedule I Lenders at or about 10:00 a.m. (Toronto time) on the date of issue and acceptance of such Bankers' Acceptances, for bankers' acceptances having a comparable face value and maturity date to the face value and maturity date of such issue of Bankers' Acceptances, or (ii) if such Page or any substitute therefor is not available, equal to, as determined by the Administrative Agent, the arithmetic average (rounded to the nearest multiple of 0.01% with 0.005% being rounded up) of the discount rates of the Schedule I Lenders determined in accordance with their normal practices at or about 10.00 a.m. (Toronto time) on the date of issue and acceptance of such Bankers' Acceptances, for bankers' acceptances having a comparable face value and maturity date to the face value and maturity date of such issue of Bankers' Acceptances.

- (y) **"Bankers' Acceptances"** shall mean Drafts denominated in Cdn. Dollars drawn by the Borrower and accepted by a Lender as provided in Section 2.8; and, where the context permits, includes BA Loans.
- (z) **"Borrower"** shall mean Spinrite Limited Partnership, a limited partnership established pursuant to the laws of the Province of Manitoba, and its successors and permitted assigns.
- (aa) **"Borrower Subsidiaries"** shall mean all Subsidiaries of the Borrower (including, without limitation, 3096487) and their successors and assigns, and **"Borrower Subsidiary"** means any one of such Subsidiaries.
- (bb) **"Borrowing"** shall mean the aggregate Accommodation obtained or to be obtained by the Borrower under a Credit, or any Tranche of a Credit, on any Borrowing Date (for greater certainty including any Bankers' Acceptances obtained or to be obtained on the maturity of any outstanding Bankers' Acceptances, any LIBOR Loan continued for a further LIBOR Period on a rollover of such LIBOR Loan on the expiry of the applicable LIBOR Period, and any Accommodation obtained or to be obtained on the continuation or conversion of any outstanding Accommodation into another type of Accommodation) (it being agreed that, as at and subsequent to the Closing Date, notwithstanding any other provision of this Agreement or any other Loan Document, Borrowings may not be obtained by the Borrower under any Credit or any Tranche of any Credit by way of a LIBOR Loan).
- (cc) **"Borrowing Base"** shall mean, at any time, an amount equal to, without duplication: (i) 85% of the aggregate amount of all Eligible Receivables owing from Wal-Mart Stores, Inc. and its Subsidiaries located in Canada or the United States of America (collectively, **"Wal-Mart"**) provided that, at such time, Wal-Mart Stores, Inc. has a long term debt rating with Moody's which is no worse than Aa3; plus (ii) 75% of the aggregate amount of all Eligible Receivables (excluding those Eligible Receivables as identified in (i) above) at such time plus (iii) the lesser of: (A) 40% of the aggregate amount of all Eligible Inventory at such time, and (B) \$3,000,000; less (iv) without duplication, the amount of Priority Claims at such time. The Borrowing Base shall be computed hereunder on a monthly basis based on all information reasonably available to the Administrative Agent, including without limitation, the periodic reports and listings and Borrowing Base Certificate delivered to the Administrative Agent in accordance with Section 9.1(i)(v).
- (dd) **"Borrowing Base Certificate"** shall mean a certificate of a Responsible Officer in form and substance acceptable to the Administrative Agent.
- (ee) **"Borrowing Date"** means the date upon which a Borrowing is obtained, the date on which a conversion is made and the date on which a rollover occurs, as applicable.

- (ff) **"Business"** shall mean: (i) in respect of the Borrower, the business of developing, manufacturing and marketing a variety of consumer craft yarns and pattern books for the craft yarn industry and ancillary related businesses; (ii) in respect of the Fund, the business as set out in the Fund Declaration of Trust; (iii) in respect of the Trust, the business as set out in the Trust Declaration of Trust; (iv) in respect of Holding, the business of holding investments in the Borrower and in other Persons conducting business in the nature of the Business of the Borrower; (v) in respect of GP Inc., the business of acting as general partner of the Borrower and of Holding; and (vi) in respect of Spinrite Corp., the business of selling and marketing products of the Borrower in the United States of America.
- (gg) **"Business Day"** shall mean any day, other than a Saturday or Sunday, on which Canadian chartered banks are open for domestic and foreign exchange business in Toronto, Canada; provided that, with respect to any LIBOR Loan, **"Business Day"** shall mean any day, other than a Saturday or Sunday, on which dealings in U.S. Dollars may be carried on by and between prime banks in the London interbank market, except any such day on which banks are lawfully closed for business in New York, New York, United States of America, London, England or Toronto, Canada.
- (hh) **"Capex Reserve"** shall mean a reserve established by the Borrower as at the February 8, 2005 and funded by the Borrower as at February 8, 2005 in the maximum amount of \$4,400,000 which amount has been completely expended from and subsequent to February 8, 2005 by the Borrower for Capital Expenditures as determined by the Borrower and such maximum amount of the Capex Reserve has been permanently reduced by the aggregate of the amount of any and all such expenditures (it being agreed that the full amount of the Capex Reserve has been permanently reduced to \$nil as at the Closing Date).
- (ii) **"Capital Expenditures"** shall mean any expenditures of the Borrower on a consolidated basis which would in accordance with GAAP be considered expenditures for capital assets and, for greater certainty, includes expenditures on fixed assets, real property and Capital Leases; provided that the term "Capital Expenditures" shall exclude expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed from insurance proceeds paid on account of the loss of or damage to the assets being replaced or restored.
- (jj) **"Capital Leases"** shall mean any lease of any property (whether real, personal or mixed) by a Person that is required by GAAP to be capitalized.
- (kk) **"Capital Stock"** shall mean any and all shares of or ownership interests in: (i) the capital stock of any corporation, (ii) the trust units of any trust entity, (iii) the partnership units of any partnership, and (iv) any and all equivalent ownership interests in any other Person (other than a corporation, trust or partnership).

- (ll) **“Capitalized Lease Obligation”** shall mean, for any Person, any obligation of such Person, as lessee, with respect to Capital Leases.
- (mm) **“Cash Collateral”** shall mean cash or any Cash Equivalent acceptable to the Lenders in their sole discretion.
- (nn) **“Cash Equivalents”** shall mean certificates of deposit, time deposits or overnight bank deposits having maturities of three months or less from the date of acquisition issued by any Lender.
- (oo) **“Cdn. Dollars”** and **“Cdn. \$”** shall mean lawful currency of Canada.
- (pp) **“CDOR”** shall mean, for any day and relative to Bankers’ Acceptances having any specified term, the average of the annual rates for Cdn. Dollar bankers’ acceptances, having such specified term (or a term as closely as possible comparable to such specified term), of the Schedule I Lenders that appear on the Reuters Screen CDOR Page as of at 10:00 a.m. on such day (or, if such day is not a Business Day, as of 10:00 a.m. on the immediately preceding Business Day), provided that if such rates do not appear on the Reuters Screen CDOR page at such time on such date, the rate for such date will be the annual discount rate (rounded upward to the nearest whole multiple of 1/100 of 1%) as of 10:00 a.m. on such day at which the Administrative Agent is then offering to purchase Canadian dollar bankers’ acceptances accepted by it having such specified term (or a term as closely as possible comparable to such specified term) and face amount comparable to the applicable Bankers’ Acceptances.
- (qq) **“Change of Control”** shall mean and be deemed to have occurred if, at any time after the Closing Date:
- (i) Holding shall cease to directly own, in the aggregate, beneficially and of record all of the limited partnership interest in the Borrower and GP Inc. shall cease to directly own, in the aggregate, beneficially and of record all of all of the general partnership interest in the Borrower; or
 - (ii) the Trust and GP Inc. collectively shall cease to directly own, in the aggregate, beneficially and of record, 100% of the Capital Stock of Holding (except for the Subordinated Holding LP Units all of which shall be owned, in the aggregate, beneficially and of record, by the Current Securityholders or Affiliates thereof which have delivered the Security Documents to the Administrative Agent and the Lenders as required of the Current Securityholders pursuant to Section 7.1 and except to the extent redeemed, retracted or exchanged in compliance with Section 9.2(h)); or
 - (iii) the Fund shall cease to directly own, in the aggregate, beneficially and of record, 100% of the Capital Stock of the Trust; or
 - (iv) at least 50.1% of the Fund Units are acquired by any Person or group of Persons acting in concert.

- (rr) **“Closing Date”** shall mean November 10, 2006 or such later date as may be agreed upon among the parties hereto.
- (ss) **“Collateral”** shall mean all of the property, assets and undertaking, new, owned or hereafter acquired, real and personal, tangible and intangible of the Loan Parties.
- (tt) **“Commitment”** shall mean, with respect to a particular Lender under a particular Tranche or Credit, the aggregate of the commitments of each Lender in respect of such Tranche or Credit as set out in Schedule 1.1(tt), as the same may be revised, adjusted or reduced from time to time pursuant to the terms of this Agreement.
- (uu) **“Compliance Certificate”** shall mean a certificate of a Responsible Officer substantially in the form attached hereto as Schedule 1.1(uu) certifying the matters described in Section 9.1(i)(iv).
- (vv) **“Consolidated Fixed Charges”** means, during any period, the sum of, without duplication:
- (i) Capital Expenditures during any such period; plus
 - (ii) cash payments of Taxes during any such period; plus
 - (iii) scheduled principal payments made on interest bearing Debt during any such period; plus
 - (iv) cash payments of Interest Expense during any such period; plus
 - (v) without duplication, payments in respect of Capitalized Lease Obligations during any such period,
- in each case made by the Borrower on a consolidated basis as calculated in accordance with GAAP.
- (ww) **“contested”** shall mean contested in good faith by appropriate proceedings promptly initiated and diligently conducted.
- (xx) **“Contingent Obligation”** shall mean, as to any Person, any direct or indirect obligation, whether secured or unsecured, of such Person guaranteeing or having the effect of guaranteeing any indebtedness, leases, dividends, letters of credit or other obligations (the **“primary obligations”**) of any other Person (the **“primary obligor”**) in any manner.
- (yy) **“Control”** shall have the meaning specified in Schedule A hereto and **“Controlling”** and **“Controlled”** shall have an analogous meaning.
- (zz) **“Credit Parties”** shall mean, collectively, the Fund, the Loan Parties and all Subsidiaries thereof and **“Credit Party”** shall mean any one of them.

- (aaa) **"Credits"** shall mean, collectively, the Operating Credit and the Term Credit and **"Credit"** shall mean any one of the Credits.
- (bbb) **"Current Assets"** shall mean, at any time, that amount equal to the aggregate of the value of all assets of the Borrower on a consolidated basis which may properly be classified as current assets in accordance with GAAP, other than intangible assets and those assets consisting of Fancy Yarn, provided that any security (as defined in the *Securities Act* (Ontario)) included in Current Assets shall be stated and included at the lower of its actual cost or its market value.
- (ccc) **"Current Liabilities"** shall mean, at any time, that amount equal to the aggregate of the value of all liabilities of the Borrower on a consolidated basis which may properly be classified as current liabilities in accordance with GAAP, and including that portion of Debt of the Borrower on a consolidated basis (other than the Term Loans) which will be maturing within one year of the date such liabilities are calculated.
- (ddd) **"Current Ratio"** shall mean, at any time, the ratio calculated by dividing: (i) Current Assets at such time by (ii) Current Liabilities at such time.
- (eee) **"Current Securityholders"** shall mean the Persons who are the direct holders of the Subordinated Holding LP Units as of the Closing Date being the Management Corporations, 3096488 Nova Scotia Company and 3096489 Nova Scotia Company and those Affiliates thereof which have acquired any Subordinated Holding LP Units subsequent to the Closing Date (for greater certainty, it being understood that the Borrower shall cause all such Affiliates to deliver the Security Documents to the Administrative Agent and the Lenders as required of the Current Securityholders pursuant to Section 7.1) and **"Current Securityholder"** shall mean any one of them.
- (fff) **"Debt"** shall mean, at any time, on a consolidated basis for any Person, without duplication and without regard to the interest component thereof:
- (i) all indebtedness and obligations of such Person in respect of borrowed money including, without limitation, all outstanding Accommodation, the deferred purchase price of property or services, all obligations to repurchase all or any portion of any property transferred or sold by such Person, all convertible debt and all other obligations arising under arrangements or agreements that, in substance, provide financing to such Person;
 - (ii) all securitized amounts of such Person to the extent that there is recourse to such Person for such amounts;
 - (iii) the principal portion of all Capitalized Lease Obligations and Purchase Money Obligations of such Person;

- (iv) all obligations arising in connection with an acceptance facility or a letter of credit or letter of guarantee issued for the account of such Person to assure payment of borrowed money or other financial obligations of any Person;
- (v) all Contingent Obligations of such Person in respect of Debt of another Person;
- (vi) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under said agreement in the event of failure are limited to repossession or sale of such property);
- (vii) all obligations, contingent or otherwise, of such Person to purchase, redeem, retire or otherwise acquire for value any of its Capital Stock provided that any conditions to any such contingent or other obligations have been met; and
- (viii) all obligations of the kind referred to in each of the clauses above secured by (or for which a holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation

and, for greater certainty, "Debt" excludes: (x) deferred taxes and trade payables of such Person incurred in the ordinary course of business; and (y) in the case of Holding, the Subordinated LP Units.

- (ggg) **"Default"** shall have the meaning ascribed thereto in Schedule A attached hereto.
- (hhh) **"Delaware LP"** shall mean Spinrite Holdings, LP, a Delaware limited partnership, and its successors and permitted assigns.
- (iii) **"Depreciation Expense"** shall mean, with respect to any period, depreciation, amortization, depletion and other like reductions to income of the Borrower on a consolidated basis for such period, all determined in accordance with GAAP.
- (jjj) **"Discharge"** when used as a verb, includes add, deposit, leak or emit and, when used as a noun includes addition, deposit, emission or leak.
- (kkk) **"Distribution"** means, in respect of any Person, the direct or indirect declaration or making of any dividend payment or any other distribution of cash, property or assets, in respect of any trust units, partnership units, shares, Debt, Subordinated LP Units or other securities of such Person (including, without limitation, any warrants, rights or options to acquire such trust units, partnership units, shares, Debt, Subordinated LP Units or other securities) or the purchase, redemption,

retirement or acquisition for value of any such trust units, partnership units, shares, Debt, Subordinated LP Units or other securities (including, without limitation, any warrants, rights or options to acquire such trust units, partnership units, shares, Debt, Subordinated LP Units or other securities) or the setting aside of cash, property or other assets for any of the foregoing.

(III) **"Draft"** shall have the meaning specified in Section 2.8(e).

(mmm) **"EBITDA"** shall mean, for any period, Net Income on a consolidated basis for such period plus, without duplication, but only to the extent such amounts were deducted in determining Net Income for such period:

- (i) Interest Expense for such period,
- (ii) Income Tax Expense for such period,
- (iii) Depreciation Expense for such period,
- (iv) extraordinary and non-recurring losses of the Borrower during such period (it being agreed that, without duplication: (A) writedowns by the Borrower of Fancy Yarn inventory in the aggregate amounts of: (x) \$2,500,000 during the Fiscal Year of the Borrower ending December 31, 2005, (y) no more than \$5,700,000 during the Fiscal Year of the Borrower ending December 31, 2006 (or such other amount as may be agreed between the Borrower and the Required Lenders), and (z) no more than a maximum amount to be agreed between the Borrower and the Required Lenders during the Fiscal Year of the Borrower ending December 31, 2007, (B) employee severance expenses of the Borrower in the aggregate amount of no more than \$500,000 during the term of this Agreement, and (C) a writeoff by the Borrower on or about December 31, 2005 of accounts receivable (owing from Lewiscraft Corporation and other customers) in the aggregate amount of \$800,000; shall, in each case, be deemed to be an extraordinary and non-recurring loss), and
- (v) professional fees of PricewaterhouseCooper LLP, Amendment Fees and legal fees of the Administrative Agent and the Lenders in each case incurred by the Borrower during such period in connection with this Agreement,

less, without duplication, but only to the extent such amounts were added in determining Net Income for such period: (vi) extraordinary and non-recurring gains during such period, and (vii) amounts previously written off in respect of inventory of the Borrower (including, without limitation, Fancy Yarn inventory) to the extent that any such amounts have been recaptured during such period.

(nnn) **"Eligible Assignee"** shall have the meaning specified in Schedule A attached hereto.

(ooo) **“Eligible Inventory”** means, at any time, the aggregate of all inventory owned by the Borrower and its Subsidiaries that consists of finished goods, work-in-process and raw materials (in each case valued at the lower of cost or market value), other than, without duplication:

- (i) inventory in respect of which any of the Lenders do not have a valid, effective perfected and first priority Lien in respect of such inventory (subject to Permitted Liens other than Permitted Liens set out in Section 1.1(IIII)(xiv));
- (ii) inventory which is obsolete, unsaleable, shopworn, damaged, unfit for sale or of substandard quality;
- (iii) inventory which consists of display items, samples or defective goods which have been returned by a buyer;
- (iv) inventory which does not meet all standards imposed by any Applicable Law including all Applicable Laws governing product labeling, care labeling and country of origin labeling;
- (v) inventory which is placed on consignment with another Person or is held on consignment from another Person;
- (vi) unpaid inventory which has been received by the Borrower from any supplier during the immediately prior 30 day period (excluding such inventory the payment for which is supported by documentary letters of credit issued pursuant to this Agreement);
- (vii) inventory which is not covered by the insurance coverage required under this Agreement or in respect of which the Security Documents as required pursuant to Section 7.1(j) have not been provided to the Administrative Agent;
- (viii) inventory which is subject to a distribution, license or similar agreement with a third party which could restrict any of the Administrative Agent or the Lenders from exercising their rights and remedies in respect of such inventory and in respect of which the Administrative Agent and the Lenders do not hold an agreement duly executed by such third party in form and substance satisfactory to the Lenders under which the third party consents to the Administrative Agent and the Lenders exercising their rights and remedies in respect of such inventory (which, for greater certainty, shall not include any such inventory which is subject to the Patons Agreement); and
- (ix) inventory which consists of Fancy Yarn.

(ppp) **“Eligible Receivables”** means the aggregate of all good quality Receivables of the Borrower and its Subsidiaries, other than, without duplication:

- (i) Receivables in respect of which any of the Lenders do not have a valid, effective perfected and first priority Lien in respect of such Receivables (subject to Permitted Liens);
 - (ii) that portion of any Receivable which has been outstanding for ninety (90) days or more from the date of the applicable invoice;
 - (iii) intercompany Receivables including, without limitation, Receivables owing from any other Credit Party or from any Current Securityholder or from any Affiliated Party;
 - (iv) Receivables which can be considered to be contra accounts;
 - (v) that portion of any Receivable subject to any material claim or dispute or right of set-off or holdback; and
 - (vi) Receivables due from any debtor which has suspended business, made a general assignment for the benefit of its creditors, consented to or applied for the appointment of a receiver, trustee, custodian, liquidator for itself or any of its property, or which has commenced proceedings or in respect of which proceedings have been commenced under any bankruptcy, liquidation or reorganization law.
- (qqq) **“Environmental Activity”** shall mean any past, present or future activity, event or circumstance in respect of any Hazardous Materials, including, without limitation, their storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation, or their Release, escape, leaching, dispersal or migration into or movement through the Natural Environment.
- (rrr) **“Environmental Laws”** shall mean, at any time, any and all of the then Applicable Laws relating to the Natural Environment or any Environmental Activity.
- (sss) **“Environmental Liability”** shall mean any and all losses, claims, damages, liabilities, suits, actions, debts, costs, obligations, judgments, charges and expenses, of any nature whatsoever suffered by the Administrative Agent or any of the Lenders, whether upon realization on the Security Documents, or as lenders to the Borrower, or as successors to or assignees of any right or interest of any Credit Party, or as a result of any order, investigation or action by any Governmental Authority relating to the Credit Parties or their business or Owned Property or Leased Property (collectively, the **“Property”**) or as privileged or hypothecary creditor or mortgagee in possession of the Property or as successor or successor-in-interest to the Credit Parties as a result of any taking of possession of all or any of the Property or by foreclosure deed or deed in lieu of foreclosure or by any other means relating to the Credit Parties, in each case under or on account of any breach of Environmental Law with respect to: (i) the Release of a

Hazardous Material, the threat of the Release of any Hazardous Material, or the presence of any Hazardous Material affecting the Property, whether or not the same originates or emanates from the Property or any contiguous real or immovable property located thereon, including any loss of value of the Property as a result of any of the foregoing, (ii) the Release of a Hazardous Material owned by, or under the charge, management or control of any of the Credit Parties, or any predecessor or assignor of any of the Credit Parties, (iii) any costs incurred by any Governmental Authority or any other Person or damages from injury to, destruction of, or loss of natural resources in relation to, the Property or elsewhere, including reasonable costs of assessing such injury, destruction or loss incurred under any Environmental Laws, and/or (iv) liability for personal injury or property damage arising in connection with any breach of Environmental Law, including by reason of any civil law offenses or quasi-offenses or under any statutory or common law tort or similar theory, including, without limitation, damages assessed for the maintenance of a public or private nuisance or for the carrying on of a dangerous activity at, near, or with respect to the Property or elsewhere.

- (ttt) **"Equivalent Amount"** shall mean, with respect to any two currencies, the amount obtained in one such currency ("**first currency**") when an amount in the other currency is converted into the first currency using the Bank of Canada noon rate for the conversion of the applicable amount of the other currency into the first currency in effect as of 12:00 noon on the Business Day with respect to which such computation is required for the purpose of this Agreement or, in the absence of such a noon rate on such date, using such other rate as the Administrative Agent may reasonably select.
- (uuu) **"Extension Request"** means, in respect of the Operating Credit, a written notice delivered by the Borrower to the Administrative Agent (who receives such notice on behalf of the Lenders) requesting that the then applicable Maturity Date in respect of the Operating Credit be extended to a date which is 364 days from the then applicable Maturity Date pursuant to Section 5.8.
- (vvv) **"Event of Default"** shall mean an event specified in Section 10.1.
- (www) **"Fancy Yarn"** shall mean, fancy yarn known as Bernat Galaxy, Bernat Solo, Bernat Matrix, Patons Carmen, Patons Brilliant, Patons CiCi, Patons Pooch, Patons Lacette, Patons ChaCha, Patons Allure, Patons Be Mine, Bernat Bling Bling, Bernat Boa, Patons Twister, Patons Bohemian, Bernat Envy and Patons Glittallic.
- (xxx) **"Federal Funds Rate"** shall mean, for any day, an annual interest rate equal to the weighted average of the rates on overnight United States federal funds transactions with members of the Federal Reserve System arranged by United States federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or for any Business Day on which such rate is not so published, the

arithmetic average of the quotations for such day on such transactions received by the Administrative Agent from three United States federal funds brokers of recognized standing selected by it.

- (yyy) **"Fiscal Quarter"** shall mean, in respect of any Person, any fiscal quarter of such Person.
- (zzz) **"Fiscal Year"** shall mean, in respect of any Person, the fiscal year of such Person.
- (aaaa) **"Four Quarter Period"** shall mean, at the date of any calculation in respect of any Credit Party, the period of four consecutive Fiscal Quarters which shall include the Fiscal Quarter ending as of the effective date of such calculation and the immediately preceding three Fiscal Quarters.
- (bbbb) **"Fund"** shall mean Spinrite Income Fund, an open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust, and its successors and permitted assigns.
- (cccc) **"Fund Declaration of Trust"** shall mean the amended and restated declaration of trust dated on or about January 28, 2005 relative to the Fund as such amended and restated declaration of trust may be further supplemented, amended, consolidated or restated from time to time.
- (dddd) **"Fund Transaction"** shall mean the indirect acquisition of the Borrower by the Fund and the issuance by the Fund of Fund Units, all as summarized in Schedule 1.1(dddd).
- (eeee) **"Fund Units"** shall mean the units of the Fund authorized and issued pursuant to the Fund Declaration of Trust and, for greater certainty, do not include any securities convertible or exchangeable into Fund Units that have not been so converted or exchanged at the relevant time.
- (ffff) **"GAAP"** shall mean those generally accepted accounting principles which are in effect in Canada from time to time applied in a consistent manner from period to period.
- (gggg) **"Governmental Authority"** shall have the meaning ascribed thereto in Schedule A attached hereto.
- (hhhh) **"GP Inc."** shall mean Spinrite GP Inc., a corporation established pursuant to the laws of the Province of Nova Scotia, and its successors and permitted assigns.
- (iiii) **"Guarantors"** shall mean, collectively: (a) the Trust, Holding, GP Inc., and each of their Subsidiaries and the Subsidiaries of the Borrower (including Spinrite Corp.) and their successors and assigns, and (b) any other Person that, with the prior written consent of the Lenders, at any time in the future becomes a direct or indirect Subsidiary of the Borrower or any of the Guarantors and guarantees any or all of the Outstanding Obligations pursuant to guarantee agreements in form

and substance satisfactory to the Agent and the Lenders, and “**Guarantor**” means any one of them.

- (jjjj) “**Hazardous Materials**” shall mean any pollutant, hazardous material, contaminant or other substance that, when released to the Natural Environment, is likely to cause, at some immediate or future time, material harm or degradation to the Natural Environment or material risk to human health and, without restricting the generality of the foregoing, Hazardous Materials shall include any pollutant, contaminant, waste, hazardous waste or dangerous good as defined by applicable Environmental Laws, asbestos and polychlorinated biphenyls.
- (kkkk) “**Holding**” shall mean Spinrite Holding LP, a limited partnership existing pursuant to the laws of the Province of Manitoba, and its successors and permitted assigns.
- (llll) “**Holding Partnership Agreement**” shall mean the limited partnership agreement governing Holding among GP Inc., as general partner, and the Trust and certain holders of Subordinated Holding LP Units, as limited partners, dated on or about January 28, 2005, as such limited partnership agreement may from time to time be supplemented, amended, consolidated or restated to the extent permitted hereunder.
- (mmmm) “**Holding Units**” shall mean the limited partnership interests issued by Holding, consisting of Ordinary Holding LP Units and Subordinated Holding LP Units and, for greater certainty, do not include any securities convertible or exchangeable into Holding Units that have not been so converted or exchanged at the relevant time.
- (nnnn) “**in writing**” or “**written**” shall mean any form of written communication or a communication by means of facsimile or telex device.
- (oooo) “**Income Tax Expense**” shall mean, with respect to any period, the aggregate of all taxes on the income of the Borrower on a consolidated basis for such period, all as determined in accordance with GAAP.
- (pppp) “**Insurance**” shall have the meaning specified in Section 9.1(k).
- (qqqq) “**Intellectual Property**” shall mean the collective reference to all rights, priorities and privileges relating to intellectual property, whether arising under Canadian, American, multinational or foreign laws or otherwise, including, without limitation, copyrights, copyright licenses, patents, patent licenses, trademarks, trademark licenses, technology (including, without limitation, source code and computer operating systems), know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages thereon.

- (rrrr) **"Interest Coverage Ratio"** shall mean, with respect to any period, the ratio calculated by dividing EBITDA for such period by Interest Expense for such period.
- (ssss) **"Interest Expense"** shall mean, with respect to any period, the aggregate amount of interest and other financing charges incurred by the Borrower on a consolidated basis during such period with respect to Debt (including, without limitation, interest, capitalized interest, discount and financing fees, commissions, discounts, costs related to factoring or securitizing receivables and other fees and charges payable with respect to letters of credit and bankers' acceptance financing, standby fees and the interest component of Capitalized Lease Obligations and Purchase Money Obligations but excluding one-time upfront fees paid in connection with the Credits) owing by the Borrower as determined in accordance with GAAP.
- (tttt) **"Investment"** shall have the meaning specified in Section 9.2(g).
- (uuuu) **"Issuing Bank"** shall have the meaning ascribed thereto in Schedule A attached hereto and, initially, shall be The Bank of Nova Scotia (or such other Lender as agreed by the Borrower and all of the Lenders hereunder).
- (vvvv) **"Key Acquisition Documents"** means, collectively: (a) the final prospectus for Spinrite Income Fund dated January 28, 2005 (the **"Final Prospectus"**), (b) the Partnership Agreements in respect of Holding and the Borrower, (c) the Fund Declaration of Trust and the Trust Declaration of Trust, (d) the long term incentive and option plans of the Credit Parties, (e) the Securityholders Agreement, (f) the Acquisition Agreement (and the Disclosure Letter, as defined therein) and all other share transfer agreements including, without limitation, any subscription agreements, in respect of the Fund Transaction, (g) the Liquidity Agreement, and (h) the Trust Note Indenture, the Trust Notes and the other instruments issued pursuant thereto, and **"Key Acquisition Document"** means any one of such documents and instruments.
- (www) **"Key Agreements"** shall mean any agreement, arrangement or understanding entered into now or in the future by any Credit Party which materially affects the business, operations, assets or prospects, financial or otherwise, of the Credit Parties taken as a whole, including, without limitation, the Key Acquisition Documents, the Margve Contract (other than for the purposes of Section 9.2(n)) and those agreements as listed Schedule 1.1(www).
- (xxxx) **"LC Fee"** shall have the meaning specified in Section 4.6.
- (yyyy) **"Leased Property"** shall have the meaning specified in Section 7.1(k).
- (zzzz) **"Lease"** shall mean, collectively, all present and future leases, agreements to lease or sub-lease in respect of real property to which any Loan Party is a party, including those set forth in Schedule 7.1(k) (including all easements, rights-of-way, licenses, privileges, benefits, and rights pertaining thereto or connected

therewith) and all present and future licenses whereby any Loan Party is given the right to use or occupy any real property, and all amendments, extensions, and renewals thereof.

- (aaaaa) **"Lenders"** shall mean, collectively and without duplication, the Operating Lenders, the Overdraft Lender, the Term Lenders and any such other Person which may become an Operating Lender, an Overdraft Lender or a Term Lender hereunder and **"Lender"** shall mean any one of the Lenders.
- (bbbbbb) **"Lending Office"** of any Lender shall mean the office of such Lender at its address set out on Schedule 1.1(tt) or such other office of such Lender in Canada as such Lender may from time to time designate in writing to the Administrative Agent and the Borrower.
- (ccccc) **"Letter of Credit"** shall mean a standby letter of credit, a letter of guarantee (or other equivalent instrument) or a documentary letter of credit (for greater certainty, being a letter of credit issued in connection with importing or exporting of goods and which is treated by the Issuing Bank as a trade related contingency) (a **"Documentary LC"**); in each case, issued in Cdn. Dollars or U.S. Dollars by the Issuing Bank, as provided for in Section 2.10.
- (ddddd) **"Letter of Credit Agreement"** shall mean a Letter of Credit application, indemnity, service agreement, license agreement, electronic banking agreement or such other related document as the Issuing Bank may reasonably require from time to time.
- (eeeeee) **"LIBOR"** shall mean, with respect to each LIBOR Period for each LIBOR Loan, a rate per annum expressed on the basis of a 360 day year, equal to the annual interest rate for deposits of U.S. Dollars for a maturity most nearly comparable to such LIBOR Period which appears on the LIBO page 01 of the Reuters Screen as of 11:00 a.m. (London time) on the second Business Day prior to the commencement of such LIBOR Period most nearly comparable to such LIBOR Period which appears on or, if not available, the LIBOR page of the Dow Jones Telerate Screen as of 11:00 a.m. (London time) on the second Business Day prior to the commencement of such LIBOR Period; provided that if neither rate is available on such day, then the annual rate of interest at which the Administrative Agent is offered deposits of U.S. Dollars by leading banks in the London interbank market as of 11:00 a.m. (London time) on the second Business Day prior to the commencement of such LIBOR Period, for delivery on the first day of such LIBOR Period for the number of days comprised in such LIBOR Period and in an amount comparable to the amount of such LIBOR Loan.
- (fffff) **"LIBOR Loan"** shall mean any Loan in U.S. Dollars with respect to which interest is calculated under this Agreement on the basis of LIBOR.
- (ggggg) **"LIBOR Period"** shall mean, with respect to a LIBOR Loan, the interest period of one to six months or such longer or shorter period as may be agreed to by the

Administrative Agent and the Lenders acting reasonably (and subject to availability as determined by the Administrative Agent), selected by the Borrower for such LIBOR Loan in accordance with Section 2.9.

(hhhhh) **"Lien"** shall mean any mortgage, charge, pledge, hypothecation, lien (statutory or otherwise), security interest or other similar encumbrance of any nature, however arising, or any other security agreement or arrangement creating in favour of any creditor a right in respect of any particular property that is prior to the right of any other creditor in respect of such property, and includes without limitation the right of a lessor under a Capitalized Lease Obligation but, for greater certainty, excludes any lease that is considered an operating lease in accordance with GAAP.

(iiii) **"Liquidity Agreement"** shall mean the liquidity agreement among the Fund, the Trust, GP Inc., Holding, Delaware LP, Spinrite Management LP, and the Management Corporations dated on or about February 8, 2005, as such agreement may from time to time be supplemented, amended, consolidated or restated to the extent permitted hereunder.

(jjjj) **"Loan"** shall mean the principal amount of Cdn. Dollars or U.S. Dollars advanced or deemed made by a Lender to the Borrower on any Borrowing Date, and **"type"** of Loan shall refer to whether a particular Loan is a Prime Rate Loan, a U.S. Base Rate Loan, a BA Loan or a LIBOR Loan (it being agreed that, as at and subsequent to the Closing Date, notwithstanding any other provision of this Agreement or any other Loan Document, a LIBOR Loan shall not be advanced or deemed made by a Lender hereunder).

(kkkkk) **"Loan Documents"** shall mean, collectively, this Agreement, the Security Documents, the arrangements letter from The Bank of Nova Scotia to the Borrower dated on or about November 22, 2004 (the **"Arrangements Letter"**), the fees letter from The Bank of Nova Scotia to the Borrower dated on or about November 22, 2004 (the **"Fees Letter"**), all of the Administrative Agent's agency fee letters issued from time to time in respect of this Agreement, promissory notes (if any) delivered pursuant to this Agreement, and all other documents and instruments in favour of the Agent or the Lenders related hereto and any other document which, pursuant to the provisions of this Agreement, is stated to be a Loan Document.

(llll) **"Loan Parties"** shall mean, collectively, the Trust, Holding, GP Inc., the Borrower, Spinrite Corp. and all Subsidiaries thereof now and in the future and **"Loan Party"** shall mean any one of them.

(mmmmm) **"Management Corporations"** shall mean the following Ontario corporations owned and controlled by certain members of the management team of the Borrower being 1647052 Ontario Limited (formerly 1287356 Ontario Inc.), 1620030 Ontario Limited, 1620031 Ontario Limited, 1620006 Ontario Limited, 1620005 Ontario Limited, 1620004 Ontario Limited and 1619914 Ontario

Limited, and the following Nova Scotia corporations owned and controlled by certain members of the management team of the Borrower being 3091784 Nova Scotia Company and 3091785 Nova Scotia Company, and each of their successors and permitted assigns.

(nnnnn) **"Mandatory Prepayment Certificate"** shall mean a certificate of a Responsible Officer in the form attached hereto as Schedule 1.1(nnnnn) showing with respect to the events described in Section 5.3(a)(ii), a reasonably detailed calculation of the Net Cash Proceeds arising therefrom.

(ooooo) **"Margve Contract"** shall mean the employment agreement between GP Inc. and Dario Margve dated on or about February 4, 2005 as such agreement may from time to time be supplemented, amended, consolidated or restated.

(ppppp) **"Material Adverse Effect"** shall mean any event relating to any Credit Party which has a material adverse effect on the assets, business, operations or financial position of the Loan Parties taken as a whole or the ability of any of the Loan Parties to perform their obligations under this Agreement or any of the other Loan Documents.

(qqqqq) **"Material Litigation"** shall mean:

- (i) any action, suit, inquiry, claim or proceeding (including, without limitation, any proceedings for injunctive or mandatory relief) commenced against any Credit Party before any court or Governmental Authority that would have or could reasonably be expected to have a Material Adverse Effect; and
- (ii) any out-of-court settlement agreed upon by any Credit Party to avoid any action, suit, inquiry, claim or proceeding commenced or threatened to be commenced before any court or Governmental Authority whereby any Credit Party:
 - (A) pays, or
 - (B) becomes obligated to pay upon conclusion of the settlement,

an amount in excess of any insurance proceeds agreed by the applicable insurer or insurers to be payable forthwith to such Credit Party in respect of such existing or threatened action, suit, inquiry, claim or proceeding and which amount, if paid, would have or could reasonably be expected to have, a Material Adverse Effect.

(rrrrr) **"Maturity Date"** means:

- (i) with respect to the Operating Credit, (A) November 9, 2007, or (B) such later date as determined in accordance with Section 5.8; in either case subject to such earlier date as a result of any acceleration thereof pursuant to this Agreement; and

- (ii) with respect to the Term Credit, December 31, 2007; subject to such earlier date as a result of any acceleration thereof pursuant to this Agreement.

(sssss) **“Monthly Distributable Amount”** means, for any month (the **“Relevant Month”**) commencing on or after November 1, 2006, the amount by which EBITDA during such Relevant Month exceeds the Consolidated Fixed Charges of the Borrower during such Relevant Month (provided Monthly Distributable Amount shall be deemed never to be less than nil at any time).

(ttttt) **“Natural Environment”** shall mean the air, land, subsoil, surface water and ground water, or any combination or part thereof in any jurisdiction in which any Credit Party thereof carries on (or previously carried on) business.

(uuuuu) **“Net Cash Proceeds”** shall mean

- (i) in connection with any Asset Sale or any Recovery Event or any Sale of Fancy Yarn, the proceeds thereof in the form of cash and Cash Equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or instalment receivable or purchase price adjustment receivable or otherwise, but only as and when such proceeds are received) of such Asset Sale or Recovery Event or Sale of Fancy Yarn, and:

- (1) in the case of any such Asset Sale or Recovery Event, net of:
- (A) legal fees, accountants’ fees and investment banking fees in connection with such Asset Sale or Recovery Event,
 - (B) amounts required to be applied to the repayment of Debt secured by a Lien expressly permitted hereunder on any asset which is the subject of such Asset Sale or Recovery Event (other than any Lien pursuant to the Security Documents),
 - (C) other customary fees and expenses actually incurred in connection with such Asset Sale or Recovery Event,
 - (D) the amount of any reasonable reserve established in accordance with GAAP against any liabilities (other than any taxes deducted pursuant to clause (E) below): (x) associated with the assets that are the subject of such Asset Sale or Recovery Event, and (y) retained by the Loan Party, provided that the amount of any subsequent reduction of such reserve (other than in connection with a payment in respect of any such liability) shall be deemed to be Net Cash Proceeds of the Asset Sale or Recovery Event, as the case may be, received on the date of such a reduction, and

- (E) taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements) and
- (2) in the case of any Sale of Fancy Yarn, net of: (A) legal fees, accountants' fees and investment banking fees in connection with such Sale of Fancy Yarn, (B) other customary fees and expenses actually incurred in connection with such Sale of Fancy Yarn, and (C) taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements); and
- (ii) in connection with any issuance of debt securities or instruments or the incurrence of loans, the proceeds thereof in the form of cash of Cash Equivalents received by any of the Loan Parties from such issuance or incurrence, net of legal fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary fees and expenses actually incurred in connection therewith.
- (vvvvv) **"Net Income"** shall mean, with respect to any period, the consolidated net income (loss) of the Borrower for such period after allowance for minority interests all as determined in accordance with GAAP.
- (wwwww) **"Non BA Lender"** means any Lender that cannot, or does not in the ordinary course of its business, accept Drafts for Bankers' Acceptances.
- (xxxxx) **"Norwest"** means Norwest Mezzanine Capital Partners, and its successors and assigns.
- (yyyyy) **"Notice of Availment"** shall have the meaning specified in Section 2.5.
- (zzzzz) **"Operating Credit"** shall have the meaning specified in Section 2.1 and includes the Revolving Tranche and the Overdraft Tranche.
- (aaaaa) **"Operating Credit Commitment"** shall mean, at any time, the aggregate of the Revolving Commitments at such time.
- (bbbbb) **"Operating Lenders"** shall mean, collectively, the Revolving Lenders and the Overdraft Lender and **"Operating Lender"** shall mean any one of the Operating Lenders.
- (ccccc) **"Ordinary Holding LP Units"** shall mean ordinary limited partnership units of Holding.
- (dddddd) **"Outstanding Obligations"** means, without duplication, the aggregate of: (i) all Accommodation, (ii) all unpaid interest, fees, charges, indemnities and expenses in respect of this Agreement, the Security Documents and any other Loan Documents required to be paid by the Borrower to the Administrative Agent or

any of the Lenders, and (iii) all Rate Protection Obligations, all other indebtedness, liabilities and obligations of the Borrower to the Administrative Agent or any Lender (including, without limitation, pursuant to the provision of corporate VISA and commercial card services and credit), direct or indirect, contingent or otherwise, and all unpaid interest, fees, charges, indemnities and expenses in respect thereof required to be paid by the Borrower to the Administrative Agent or any of the Lenders.

- (eeeeee) **“Overdraft Commitment”** shall mean, with respect to the Overdraft Lender under the Overdraft Tranche the amount specified as such Lender’s “Overdraft Commitment” as set forth opposite such Lender’s name on Schedule 1.1(tt), as same may be revised, adjusted or reduced from time to time pursuant to the terms of this Agreement.
- (ffffff) **“Overdraft Lender”** shall mean the financial institution shown in Schedule 1.1(tt) as the lender providing the Overdraft Commitment together with its successors and assigns in such capacity.
- (gggggg) **“Overdraft Tranche”** shall have the meaning specified in Section 2.1(b).
- (hhhhhh) **“Owned Property”** shall have the meaning specified in Section 7.1(i).
- (iiiiii) **“Partnership Agreements”** shall mean the Holding Partnership Agreement and the Spinrite Partnership Agreement.
- (jjjjjj) **“Patons Agreement”** shall mean the license agreement between the Borrower and Coats Canada Inc. dated September 3, 1999 whereby, among other things, the Patons trademark has been licensed to the Borrower by Coats Canada Inc., as such agreement may be amended, restated, replaced, modified, extended or otherwise changed.
- (kkkkkk) **“Permitted Affiliate Transactions”** shall mean, with respect to any Credit Party:
- (i) payments of salary and bonuses to employees or officers of any such Credit Party in their capacity as employee or officer of any such Credit Party in the ordinary course of business or as otherwise approved by the trustees or compensation committee of such Credit Party;
 - (ii) customary directors’ and trustees’ fees, customary directors’ and executive officers’ indemnifications and similar arrangements for directors, trustees and officers of such Credit Party entered into in the ordinary course of business provided such fees, indemnifications and arrangements are reasonable and consistent with market practice;
 - (iii) subject to the restrictions as are otherwise set out in this Agreement, transactions in the ordinary course of business on terms no less favourable to the relevant Credit Party than would be obtained in comparable transactions with a Person who is not an Affiliated Party;

- (iv) loans and advances to officers, directors and employees of such Credit Party for travel, moving and other relocation expenses, in each case made in the ordinary course of business, provided the aggregate outstanding amount of such loans and advances does not exceed \$1,000,000 at any time in the aggregate for all of the Credit Parties during the term of this Agreement;
- (v) loans and advances to officers, directors and employees of such Credit Party for purchase of the Capital Stock of the Fund provided the aggregate outstanding amount of all such loans and advances does not exceed \$1,000,000 at any time in the aggregate for all of the Credit Parties during the term of this Agreement;
- (vi) the incurrence of Debt to, the making of investments in and payments made to another Credit Party as otherwise may be permitted pursuant to, and subject to the restrictions otherwise set out in, this Agreement; and
- (vii) transactions pursuant to the Key Acquisition Documents provided such transactions do not otherwise breach any provision of the Loan Documents.

(III) **“Permitted Debt”** in respect of any Credit Party shall mean:

- (i) all debts, liabilities and obligations of the Credit Parties owing to the Administrative Agent and the Lenders as evidenced by the Loan Documents;
- (ii) Debt of any Credit Party owing to the Borrower or another Credit Party as permitted by this Agreement (including Trust Note Indenture Indebtedness);
- (iii) Capitalized Lease Obligations, Purchase Money Obligations and unsecured Debt of any Credit Party provided all such Capitalized Lease Obligations, Purchase Money Obligations and unsecured Debt collectively do not exceed \$150,000 in aggregate for all Credit Parties (including, without limitation, in respect of Capitalized Lease Obligations owing by the Borrower to The Bank of Nova Scotia or any other Lender);
- (iv) Rate Protection Obligations entered into by the Borrower provided that: (i) such Rate Protection Obligations are not for speculative purposes and are designed solely to protect the Borrower against fluctuations in currency exchange rates, interest rates or commodity prices, and (ii) such Rate Protection Obligations are bona fide and have been entered into by such the Borrower with a Lender in good faith and in the ordinary course of the business of the Borrower;

- (v) Debt arising from corporate VISA and/or commercial card transactions between the Borrower and The Bank of Nova Scotia or any other Lender hereunder;
- (vi) Debt owing by the Borrower to Delaware LP and Spinrite Management, LP pursuant to an undertaking and acknowledgement dated on or about the date hereof in the form as attached hereto as Schedule 1.1(IIIIII) provided that: (A) all such Debt is subordinated and postponed in all respects to the Outstanding Obligations and matures on a date which is subsequent to the Maturity Date for the Term Credit, (B) the interest rate in respect of such Debt does not exceed 15% per annum compounded monthly, and (C) all interest payments in respect of such Debt are declared and paid in kind with all such accrued interest to be added to the principal amount of such Debt which shall not be paid prior to repayment in full of the Outstanding Obligations; and
- (vii) Debt of any Credit Party in respect of which the Lenders have given their prior written consent as to existence and ranking.

(mmmmmm)

“Permitted Liens” in respect of any Credit Party shall mean:

- (i) Liens for taxes, assessments or governmental charges or levies not at the time due or delinquent or the validity of which are being contested in good faith by appropriate proceedings and as to which reserves in an amount which is adequate therefor are being maintained in accordance with GAAP;
- (ii) the Lien of any claim filed which is being contested in good faith by appropriate proceedings and as to which reserves in an amount which is adequate therefor are being maintained in accordance with GAAP;
- (iii) Liens securing appeal bonds and other similar Liens arising in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving a similar purpose provided such court proceedings are being contested in good faith by appropriate proceedings and attachments, judgments and other similar Liens arising in connection with such court proceedings provided, however, that the same would not constitute an Event of Default;
- (iv) undetermined or inchoate Liens, including Liens of contractors, subcontractors, repairers, mechanics, suppliers, materialmen and others in respect of construction, maintenance, repair or operation of the Collateral, or other like possessory liens and charges incidental to then current construction operations which have not at such time been filed pursuant to law or which relate to obligations not due or delinquent or which are being contested in good faith by appropriate proceedings and as to which

- reserves in an amount which is adequate therefor are being maintained in accordance with GAAP;
- (v) servicing agreements, development agreements, site plan agreements, and other agreements with governmental or public authorities pertaining to the use or development of any of the Collateral, provided same are complied with;
 - (vi) warehouseman's, carriers', landlords or similar Liens which have not at such time been filed pursuant to law or which relate to obligations not due or delinquent or which are being contested in good faith by appropriate proceedings and as to which reserves in an amount which is adequate therefor are being maintained in accordance with GAAP;
 - (vii) the right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, licence, franchise, grant or permit acquired by such Credit Party or by any statutory provision, to terminate any such lease, licence, franchise, grant or permit, or to require annual or other payments as a condition to the continuance thereof;
 - (viii) applicable municipal and other governmental restrictions, including municipal by-laws and regulations, affecting the use of land or the nature of any structures which may be erected thereon, provided such restrictions have been complied with;
 - (ix) any rights of expropriation, access or user or any other rights conferred or vested by or under statutes of Canada or applicable provinces;
 - (x) Liens resulting from the deposit of cash, securities, or similar instruments by such Credit Party: (A) in connection with contracts, tenders or expropriation proceedings, leases or trade contracts, or (B) to secure workers' compensation, unemployment insurance, other social security legislation, performance bonds, surety or appeal bonds, costs of litigation when required by law and public and statutory obligations, or (C) in connection with the discharge of Liens or claims incidental to construction, mechanics', warehouseman's, repairers', carriers', landlords' and other similar Liens;
 - (xi) security given to, or statutory liens in favour of, a public utility or any municipality or governmental or other public authority when required by such utility or other authority in connection with the operations of such Credit Party, all in the ordinary course of business;
 - (xii) title defects or irregularities which are of a minor nature and in the aggregate will not materially impair the use by such Credit Party of the property for the purpose for which it is held;

- (xiii) easements, rights of way, servitudes and other applicable municipal, governmental and utility restrictions and similar rights affecting the use of land or the nature of any structures which may be erected thereon, provided such restrictions have been complied with in all material respects and will not materially impair the use by such Credit Party of the property in the operation of the Business of the relevant Credit Party;
- (xiv) Liens in relation to Capitalized Lease Obligations or Purchase Money Obligations of the Borrower (so long as such Liens relate only to the assets which are subject to the Capital Leases or Purchase Money Obligations) to the extent such Capitalized Lease Obligations or Purchase Money Obligations are permitted pursuant to this Agreement;
- (xv) Liens to secure Debt for borrowed money incurred by the Borrower or arising pursuant to any Rate Protection Obligation or corporate VISA and/or commercial card transactions to the extent such Debt is an Outstanding Obligation owing to any Lender;
- (xvi) Liens that existed on property when such property was acquired by such Credit Party in accordance with this Agreement provided that such Lien were not created in connection with or in contemplation of such acquisition;
- (xvii) the extension or renewal of any Permitted Lien, provided that such Lien does not extend to any additional assets, property or undertaking of the Loan Parties; and
- (xviii) any other Liens consented to in writing by all of the Lenders

provided, however, that the designation in this Agreement of any lien, encumbrance or claim as a "Permitted Lien" is not, and shall not be deemed to be, an acknowledgment by the Administrative Agent or any Lender that the lien, encumbrance or claim shall have priority over the claims of the Administrative Agent and the Lenders against any one or more of the Loan Parties or their respective assets.

(nnnnnn) **"Person"** shall have the meaning specified in Schedule A attached hereto.

(oooooo) **"Prime Rate"** shall mean, on any day, a fluctuating rate of interest per annum, expressed on the basis of a year of 365 days which is equal on such day to the greater of:

- (i) the reference rate of interest (however designated) of the Administrative Agent on such day for determining interest chargeable by it on Cdn. Dollar commercial loans made in Canada; and
- (ii) 0.75% above CDOR at 10:00 a.m. (Toronto time) on such day for 30-day bankers' acceptances.

- (pppppp) **"Prime Rate Loan"** shall mean any Loan in Cdn. Dollars with respect to which interest is calculated under this Agreement on the basis of the Prime Rate.
- (qqqqqq) **"Priority Claims"** shall mean, at the time of any determination thereof, the aggregate amount due and payable at such time which is secured by one or more statutory or governmental claims or Liens created or arising, without any necessity for the consent or agreement of any Credit Party, by operation of Applicable Law which rank or are capable of ranking, prior to or *pari passu* with the Security Documents in respect of any Receivable or inventory of the Borrower or any of its Subsidiaries, including, without limitation, all claims which are due and payable or past due in respect of vacation pay, employee withholdings, pension plan contributions, workers' compensation assessment, municipal taxes and claims by public utilities (but, for greater certainty, shall not include claims or Liens against inventory of the Borrower or its Subsidiaries to the extent that such inventory has been deducted from the calculation of Eligible Inventory pursuant to Section 1.1(ppp)(vi)).
- (rrrrrr) **"Pro Rata Share"** shall mean, at any particular time with respect to a particular Lender in respect of a Tranche or a Credit, the ratio of the Commitment of such Lender under such Tranche or Credit to the aggregate of the Commitments of all Lenders under such Tranche or Credit.
- (ssssss) **"Provisions"** shall mean the provisions set out in Schedule A attached hereto.
- (tttttt) **"Purchase Money Obligations"** shall mean the outstanding balance of the purchase price of real and/or personal property (including shares), title to which has been acquired or will be acquired upon payment of such purchase price, or Debt to non-vendor third parties incurred to finance the acquisition of such new and not replacement real and/or personal property or any refinancing of such Debt or outstanding balance.
- (uuuuuu) **"Quarterly Distributable Amount"** means, for any Fiscal Quarter of the Borrower (the **"Relevant Fiscal Quarter"**) commencing on or after January 1, 2005, the amount obtained by dividing: (i) the amount by which EBITDA during the Four Quarter Period of the Borrower ending immediately prior to such Relevant Fiscal Quarter (the **"Calculation Period"**) exceeds the Consolidated Fixed Charges of the Borrower during such Calculation Period; by (ii) four.
- (vvvvvv) **"Quarterly Spinrite Statements"** shall have the meaning specified in Section 8.1(h)(ii).
- (wwwwww) **"Rate Protection Agreement"** shall mean any interest rate protection and currency swap agreement, interest rate futures contract, interest rate option, interest rate cap or other interest rate hedge arrangement, currency spot and foreign exchange contracts to or under which the Borrower (or predecessor thereto) is a party or a beneficiary on the date hereof or becomes a party or a beneficiary after the date hereof.

- (xxxxxxx) **“Rate Protection Obligations”** shall mean all debts, liabilities and obligations of the Borrower to any Lender or any Affiliate of any Lender that has entered into Rate Protection Agreements.
- (yyyyyyy) **“Receivable”** shall mean a trade account receivable of the Borrower or of any Subsidiary of the Borrower and related instruments or documents.
- (zzzzzzz) **“Recovery Event”** shall mean any settlement or payment in respect of any property or casualty insurance claim relating to any Collateral of any Loan Party.
- (aaaaaaa) **“Register”** shall have the meaning specified in section 10 of Schedule A attached hereto.
- (bbbbbbb) **“Release”** includes deposit, leak, emit, add, spray, inject, inoculate, abandon, spill, seep, pour, empty, throw, dump, place and exhaust, and when used as a noun has a similar meaning.
- (ccccccc) **“Required Facility Lenders”** shall mean, with respect to either of the Operating Credit and the Term Credit, the Lenders whose Commitments under either such Credit, as applicable, are, in the aggregate, at least 66.67% of the aggregate amount of the Commitments of all of the Lenders under such applicable Credit;
- (ddddddd) **“Required Lenders”** shall mean, at any time, the Lenders whose Commitments under the Credits are, in the aggregate, at least 66.67% of the aggregate amount of all the Commitments of all the Lenders under all of the Credits, subject to the unanimous consent of all Lenders or consent of the Required Facility Lenders required for certain actions as provided under Section 12.4.
- (eeeeeee) **“Reset Date”** shall have the meaning as set forth in Section 4.1.
- (ffffff) **“Responsible Officer”** shall mean, with respect to any Credit Party, any of the chief executive officer, president, chief operating officer or chief financial officer of such Credit Party.
- (ggggggg) **“Restricted Payment”** shall have the meaning specified in Section 9.2(h).
- (hhhhhhh) **“Revolving Commitment”** shall mean, with respect to a particular Lender under the Revolving Tranche and, in the case of any other Person that becomes a Revolving Lender after the date hereof, the amount specified as such Lender’s “Revolving Commitment” as set forth opposite such Lender’s name on Schedule 1.1(tt), as same may be revised, adjusted or reduced from time to time pursuant to the terms of this Agreement; and **“Revolving Commitments”** shall mean the aggregate of the Revolving Commitments of all of the Revolving Lenders.
- (iiiiiii) **“Revolving Lenders”** shall mean those financial institutions listed in Schedule 1.1(tt) to this Agreement as lenders under the Revolving Tranche (including, for greater certainty, the Issuing Bank), together with their successors and assigns, and **“Revolving Lender”** shall mean any one of the Revolving Lenders.

- (jjjjjj) **“Revolving Loans”** shall mean the aggregate Accommodation made pursuant to the Operating Credit.
- (kkkkkkk) **“Revolving Tranche”** shall have the meaning specified in Section 2.1(a)(i).
- (lllllll) **“Sale of Fancy Yarn”** shall mean any sale, transfer, conveyance or other disposition of Fancy Yarn by a Loan Party provided that: (i) the aggregate cash and non-cash consideration received for any such sale, transfer, conveyance or other disposition is in an amount which is below the cost to such Loan Party of such sold, transferred, conveyed or disposed of Fancy Yarn, or (ii) any such sale, transfer, conveyance or other disposition is made to a customer which would not traditionally purchase or accept such Fancy Yarn from any Loan Party.
- (mmmmmmm) **“Schedule I Lenders”** shall mean, at any time, the Lenders that are listed in Schedule I to the *Bank Act* (Canada) at such time.
- (nnnnnnn) **“Security Documents”** shall mean the guarantees, security, subordination, assignment and postponement agreements and all such other instruments, documents and agreements described in Section 7.1 and all such other guarantees, security, subordination, assignment and postponement agreements and other such instruments, documents and agreements as may be provided to the Administrative Agent or any Lender from time to time pursuant to any Loan Document.
- (ooooooo) **“Securityholders Agreement”** shall mean the securityholders agreement among the Fund, GP Inc., the Trust, Holding and the Current Securityholders dated on or about February 8, 2005 .
- (ppppppp) **“Senior Debt”** shall mean, at any time, the sum of: (i) the aggregate amount of Accommodation outstanding under this Agreement at such time; and (ii) the aggregate principal amount of all other Debt of the Borrower outstanding at such time that ranks or is capable of ranking prior to or *pari passu* with the Accommodation outstanding under this Agreement.
- (qqqqqqq) **“Spinrite Corp.”** shall mean Spinrite Corp., formerly 3096487 Nova Scotia Company, an unlimited liability corporation established pursuant to the laws of the Province of Nova Scotia, and its successors and permitted assigns.
- (rrrrrrr) **“Spinrite Group”** shall mean, collectively, the Borrower and its Subsidiaries.
- (sssssss) **“Spinrite Management LP”** shall mean Spinrite Management, LP, a Delaware limited partnership, and its successors and permitted assigns.
- (ttttttt) **“Spinrite Partnership Agreement”** shall mean the second amended and restated limited partnership agreement governing the Borrower among GP Inc., as general partner, and Holding, as limited partner, dated on or about January 28, 2005, as such partnership agreement may from time to time be supplemented, amended, consolidated or restated to the extent permitted hereunder.

(uuuuuuu) **"Spinrite Statements"** shall have the meaning specified in Section 8.1(h)(i).

(vvvvvvvv) **"Subordinated Debt"** shall mean, at any time, Debt of the Borrower on a consolidated basis which has been validly and absolutely subordinated and postponed in right of payment and collection to the repayment in full of all Outstanding Obligations and pursuant to a subordination and postponement of claim agreement in form and substance satisfactory to the Lenders.

(wwwwwww) **"Subordinated Holding LP Units"** means the exchangeable subordinated limited partnership units of Holding which have been issued to the Current Securityholders as at February 8, 2005.

(xxxxxxx) **"Subsidiary"** shall mean, with respect to any Person, a corporation, partnership, limited liability company, trust or other Person of which Capital Stock having ordinary voting power (other than Capital Stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership, limited liability corporation or other Person are at the time owned, or the management of which is otherwise Controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a **"Subsidiary"** or to **"Subsidiaries"** in this Agreement shall refer to a Subsidiary or Subsidiaries of any of the Credit Parties, as applicable.

(yyyyyyy) **"Taxes"** shall have the meaning specified in Schedule A attached hereto.

(zzzzzzz) **"Term Commitment"** shall mean, with respect to a particular Lender under the Term Credit and, in the case of any other Lender that becomes a Lender after the date hereof, the amount specified as such Lender's Term Commitment as set forth opposite such Lender's name on Schedule 1.1(tt) as the same may be revised, adjusted or reduced from time to time pursuant to the terms of this Agreement; and **"Term Commitments"** shall mean the aggregate of the Term Commitments of all of the Term Lenders.

(aaaaaaa) **"Term Credit"** shall have the meaning specified in Section 2.2.

(bbbbbbb) **"Term Lenders"** shall mean, collectively, those financial institutions listed in Schedule 1.1(tt) to this Agreement as a Lender under the Term Credit together with its successors and assigns, and **"Term Lender"** shall mean any one of the Term Lenders.

(ccccccc) **"Term Loans"** shall mean the aggregate Accommodation made pursuant to the Term Credit.

(ddddddd) **"Total Funded Debt"** shall mean, at any time, the aggregate amount of all interest bearing Debt of the Borrower at such time plus, without duplication: (i) all Capital Lease Obligations, (ii) all Purchase Money Obligations, (iii) all Senior Debt, and (iv) all Subordinated Debt; in each case, of the Borrower at such time calculated on a consolidated basis.

- (eeeeeeee) **“Total Funded Debt to EBITDA Ratio”** shall mean, with respect to any period, the ratio calculated by dividing Total Funded Debt as at the last day of such period by EBITDA for such period.
- (ffffff) **“Tranche”** shall mean either the Revolving Tranche or the Overdraft Tranche.
- (gggggggg) **“Trust”** shall mean Spinrite Trust, an open-ended limited purpose trust formed under the laws of Ontario pursuant to the Trust Declaration of Trust, and its successors and permitted assigns.
- (hhhhhhhh) **“Trust Declaration of Trust”** shall mean the declaration of trust dated on or about January 28, 2005 pursuant to which the Trust was created, as amended or amended and restated from time to time to the extent permitted hereunder.
- (iiiiiii) **“Trust Note Indenture”** shall mean the note indenture dated on or about the date hereof between the Trust, as issuer, and CIBC Mellon Trust, as trustee, which governs the notes issued by the Trust, as such note indenture may from time to time be supplemented, amended, consolidated or restated to the extent permitted hereunder.
- (jjjjjjj) **“Trust Note Indenture Indebtedness”** shall mean Debt of the Trust in favour of the Fund, the principal amount of which is not to exceed in the aggregate: (a) Cdn. \$169,862,300 plus, (b) without duplication: (x) the principal amount of any additional Notes (as such term is defined in the Trust Note Indenture) arising from any redemption, retraction or exchange of Subordinated Holding LP Units for Trust Units or any acquisition of Capital Stock of any Holdco and Debt owing by any Holdco to its shareholders pursuant to the Holding Partnership Agreement and the Liquidity Agreement plus (y) the principal amount of any additional Notes (as such term is defined in the Trust Note Indenture) issued in connection with any redemption of Trust Units plus (z) the principal amount of any additional Notes (as such term is defined in the Trust Note Indenture) issued in connection with the investment by the Fund of the cash proceeds derived from the issuance by the Fund of additional Fund Units subsequent to February 8, 2005; provided in each case that such Debt is subordinated and postponed to the Outstanding Obligations and such Notes are issued pursuant to the provisions of the Trust Note Indenture.
- (kkkkkkkk) **“Trust Notes”** shall mean the notes issued under the Trust Note Indenture, consisting of Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes and any other Notes (as such term is defined in the Trust Note Indenture) issued all to the extent permitted by this Agreement.
- (lllllll) **“Trust Units”** shall mean the units of the Trust authorized and issued pursuant to the Trust Declaration of Trust and, for greater certainty, do not include any securities convertible or exchangeable into Trust Units that have not been so converted or exchanged at the relevant time.

- (mmmmmmmm) **“U.S. Base Rate”** shall mean, on any day, the fluctuating rate of interest per annum, expressed on the basis of a year of 365 days, which is equal on such day to the greater of:
- (i) the reference rate of interest (however designated) of the Administrative Agent on such day for determining interest chargeable by it on U.S. Dollar commercial loans made in Canada; and
 - (ii) 0.50% above the Federal Funds Rate on such day.
- (nnnnnnnn) **“U.S. Base Rate Loan”** shall mean any Loan in U.S. Dollars with respect to which interest is calculated under this Agreement on the basis of the U.S. Base Rate.
- (ooooooo) **“U.S. Dollars”** and **“U.S. \$”** shall mean lawful currency of the United States of America.
- (pppppppp) **“Wholly-Owned Subsidiary”** shall mean with respect to any Person, any other Person whose entire Capital Stock is owned by such Person either directly and/or through other Wholly-Owned Subsidiaries.

Section 1.2 Headings, Etc.

The division of this Agreement into Articles, Sections, subsections, paragraphs and clauses and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Agreement. The terms “this Agreement”, “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section, subsection, paragraph or other portion of this Agreement. Unless something in the subject matter or context is inconsistent with any such reference, references in this Agreement to Articles, Sections, subsections, paragraphs, clauses and Schedules are to Articles, Sections, subsections, paragraphs, clauses and Schedules of this Agreement.

Section 1.3 Audited Financial Statements

Unless otherwise provided by this Agreement, all financial statements will be prepared on a consolidated basis and in accordance with GAAP and will include a balance sheet, a statement of income and retained earnings, a statement of changes in cash flow and such other statements as may be required by GAAP. Audited financial statements required to be delivered pursuant to this Agreement will be complete and accompanied by a report of an independent auditor confirming that the audit was conducted in accordance with generally accepted auditing standards and confirming that, in the auditor’s opinion, such financial statements present fairly in all material respects the financial position of the Person to which such audit pertains, as at the relevant date and for the relevant period, all in accordance with GAAP.

Section 1.4 Number, Gender and Expressions

Words importing the singular number only will include the plural and vice versa, words importing gender will include all genders and words importing natural persons will

include Persons and vice versa. Where any term or expression is defined in this Agreement, derivations of such term or expression will have a corresponding meaning.

Section 1.5 Time

Unless otherwise expressly stated, any reference in this Agreement to a time will mean Toronto, Ontario local time.

Section 1.6 Non-Business Days

Unless otherwise expressly provided in this Agreement, whenever any payment is stated to be due or whenever any action to be taken is stated or scheduled to be required to be taken on, or any period of time is stated or scheduled to commence or terminate on a day other than a Business Day, the payment or action will take place or the period of time will commence or terminate on the immediately prior Business Day.

Section 1.7 Conflicts

- (a) In the event of a conflict in or between the provisions of this Agreement and the provisions of any of the other Loan Document then, notwithstanding anything contained in such other Loan Document, the provisions of this Agreement will prevail and the provisions of such other Loan Document will be deemed to be amended to the extent necessary to eliminate such conflict. If any act or omission is expressly prohibited under a Loan Document (other than this Agreement) but this Agreement does not expressly permit such act or omission, or if any act is expressly required to be performed under a Loan Document (other than this Agreement) but this Agreement does not expressly relieve the applicable Credit Party from such performance, such circumstance shall not constitute a conflict in or between the provisions of this Agreement and the provisions of such Loan Document.
- (b) In the event of a conflict in or between the Provisions and any other provision of this Agreement then, notwithstanding anything contained in any such other provision of this Agreement, the Provisions will prevail and such other provision of this Agreement will be deemed to be amended to the extent necessary to eliminate such conflict. If any act or omission is expressly prohibited under any other provision of this Agreement (other than any Provision) but the Provisions do not expressly permit such act or omission, or if any act is expressly required to be performed under any other provision of this Agreement (other than any of the Provisions) but the Provisions do not expressly relieve the applicable Credit Party from such performance, such circumstance shall not constitute a conflict in or between the Provisions and any such other provision of this Agreement.

Section 1.8 Statutory References

Any reference in this Agreement to any act or statute, or to any Section of or any definition in any act or statute, will be deemed to be a reference to such act or statute or Section or definition as amended or re-enacted from time to time.

Section 1.9 Severability

If any term, covenant, obligation or agreement contained in this Agreement, or the application of any such term, covenant, obligation or agreement to any Person or circumstance, shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term, covenant, obligation or agreement to Persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected by such invalidity or unenforceability and each term, covenant, obligation or agreement contained in this Agreement shall be separately valid and enforceable to the fullest extent permitted by law.

Section 1.10 Entire Agreement

This Agreement and all other Loan Documents constitute the entire agreement between the parties to this Agreement with respect to the Credits and the other matters contemplated in this Agreement as of the date of this Agreement, and supersedes all prior agreements, understandings, drafts of Loan Documents, negotiations and discussions, whether oral or written, with respect to the Credits.

Section 1.11 Governing Law

This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario. Each Loan Party irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the courts of the Province of Ontario, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such court.

Section 1.12 Currency and Outstanding Borrowings or Accommodation

- (a) Unless otherwise specified in this Agreement, all statements of or references to dollar amounts (without further description) shall mean Cdn. Dollars.
- (b) For the purposes of calculating the Commitments or any outstanding Accommodation under this Agreement for each of the Operating Credit and the Term Credit, such amount shall be expressed in Cdn. Dollars and any Accommodation in a currency other than Cdn. Dollars shall be expressed as the Equivalent Amount (based on a current exchange rate) in Cdn. Dollars for the purpose of such calculation.

- (c) For purposes of determining compliance under Section 9.2 and Section 9.3 with respect to any amount in a currency other than Cdn. Dollars, such amount shall be deemed to equal the Equivalent Amount thereof in Cdn. Dollars at the time such amount was incurred or expended, as the case may be, or based on the exchange rate for the relevant period, as determined by the relevant Credit Party in accordance with GAAP or as otherwise reflected in the financial statements of the Credit Parties prepared in accordance with GAAP.
- (d) For the purposes of the Loan Documents, “outstanding” Accommodation or Borrowings shall refer to the outstanding principal amount of Loans, the face (or principal amount, as the case may be) of Bankers’ Acceptances and the amount of Letters of Credit calculated in accordance with Section 2.10(h)(i).

Section 1.13 Acts of the Fund, the Trust, the Trustees and the Trust Trustees and Status of Limited Partners

- (a) Where any reference is made herein or in any Loan Document to an act to be performed by, for or on behalf of the Fund or the Trust, such reference shall be construed and applied for all purposes as if it referred to an act to be performed by, for or on behalf of the trustees of the Fund (the “**Trustees**”) or trustees of the Trust (the “**Trust Trustees**”), in their capacity as trustees of the Fund or the Trust, as the case may be, and where any reference is made herein to an act to be performed by, for or on behalf of the Trustees or Trust Trustees, such reference shall be construed and applied for all purposes as if it referred to an act to be performed by, for or on behalf of the Trustees or Trust Trustees in their capacity as trustees of the Fund and the Trust, respectively.
- (b) The parties hereto acknowledge that the Trustees and Trust Trustees are entering into the Loan Documents solely in their capacity as trustees, on behalf of the Fund and Trust, respectively, and the obligations of the Fund and/or Trust hereunder shall not be personally binding upon the Trustees, Trust Trustees or any of the unitholders of the Fund (the “**Unitholders**”), any of the holders of Trust Units or any annuitant under a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan of which a Unitholder or holder of Trust Units acts as trustee (“**annuitant**”) and that any recourse against the Fund, Trust, the Trustees, Trust Trustees, any Unitholder, any holder of Trust Units or any annuitant in any manner in respect of any indebtedness, obligation or liability of the Fund and/or Trust arising hereunder or arising in connection herewith or from the matters to which this Agreement relates, if any, including claims based on negligence or otherwise tortious behaviour, shall be limited to, and satisfied only out of, the assets of the Fund or the assets of the Trust, as the case may be.
- (c) No limited partner shall have any liability as a general partner of a limited partnership that is party to any Loan Document.

Section 1.14 Schedules

The Schedules attached to, and forming part of, this Agreement are as follows:

Schedule A	Model Credit Agreement Provisions
Schedule 1.1(b)	Continuing Letters of Credit
Schedule 1.1(tt)	Lender Commitments
Schedule 1.1(uu)	Compliance Certificate
Schedule 1.1(dddd)	Summary of Fund Transaction
Schedule 1.1(www)	Key Agreements
Schedule 1.1(nnnn)	Mandatory Prepayment Certificate
Schedule 1.1(lllll)	Form of Undertaking and Acknowledgement
Schedule 2.5	Form of Notice of Availment
Schedule 7.1(c)	Form of Assignment and Postponement
Schedule 7.1(i)	Leased and Owned Real Property
Schedule 8.1(f)	Outstanding Defaults
Schedule 8.1(g)	Litigation
Schedule 8.1(i)	Adverse Events
Schedule 8.1(q)	Corporate Structure, Locations, etc.
Schedule 8.1(r)	Environmental Disclosure
Schedule 8.1(t)	Intellectual Property
Schedule 8.1(u)	Labour Matters

ARTICLE 2 THE CREDITS

Effective the Closing Date: (i) the Existing Credit Agreement is hereby amended and restated pursuant to this Agreement, (ii) all Commitments under and as defined in the Existing Credit Agreement shall continue as Commitments under this Agreement (to the extent not cancelled by this Agreement), (iii) all Outstanding Obligations under and as defined in the Existing Credit Agreement of the Borrower shall continue as Outstanding Obligations of the Borrower under this Agreement (to the extent not repaid in accordance with this Agreement).

Section 2.1 Establishment of Operating Credit

Subject to the terms and conditions of this Agreement, the following revolving term credit facility (the “**Operating Credit**”) is established by way of two separate tranches in favour of the Borrower:

(a) Revolving Tranche

- (i) **Revolving Tranche:** Each Revolving Lender severally (and not jointly or jointly and severally) agrees to make available to the Borrower on a revolving term basis, Accommodation by way of Prime Rate Loans, U.S. Base Rate Loans and Bankers’ Acceptances and Letters of Credit (in accordance with the provisions of this Agreement) (the “**Revolving Tranche**”);

provided that:

- (ii) the aggregate Revolving Commitments under the Revolving Tranche shall be equal to, and the Equivalent Amount in Cdn. Dollars of all Accommodation outstanding under the Revolving Tranche plus all Accommodation outstanding under the Overdraft Tranche will not, at any time, exceed, the Cdn. Dollar amount set out as the "Total Commitment" in Column 1 of Schedule 1.1(tt) annexed hereto (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement); and

provided further that:

- (iii) the individual Commitment of each Revolving Lender shall be equal to, and the Equivalent Amount in Cdn. Dollars of all Accommodation under the Revolving Tranche plus all Accommodation under the Overdraft Tranche (if such Lender is also the Overdraft Lender) advanced by each such Lender will not, at any time, exceed, such Lender's Revolving Commitment as set out in Column 1 of Schedule 1.1(tt) annexed hereto (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement).

(b) Overdraft Tranche.

- (i) The Overdraft Lender agrees to make available to the Borrower on a revolving term basis, Accommodation by way of Prime Rate Loans and U.S. Base Rate Loans (in accordance with the provisions of this Agreement) (the "**Overdraft Tranche**");

provided that:

- (ii) subject to Section 5.5, the Equivalent Amount in Cdn. Dollars of all such Accommodation outstanding under the Overdraft Tranche, and the individual Commitment of the Overdraft Lender, will not, at any time, exceed the Cdn. Dollar amount set out as the "Total Commitment" in Column 2 of Schedule 1.1(tt) annexed hereto (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement); and

provided further that:

- (iii) subject to Section 5.5, the Equivalent Amount in Cdn. Dollars of all Accommodation under the Overdraft Tranche plus all Accommodation under the Revolving Tranche advanced by such Lender as a Revolving Lender will not, at any time, exceed such Lender's Revolving Commitment as set out in Column 1 of Schedule 1.1(tt) annexed hereto (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement).

Section 2.2 Establishment of Term Credit

Subject to the terms and conditions of this Agreement, a non-revolving term credit facility ("**Term Credit**") is established in favour of the Borrower pursuant to which each Term Lender severally (and not jointly or jointly and severally) agrees to make available to the Borrower on a non-revolving term basis, Accommodation by way of Prime Rate Loans, U.S. Base Rate Loans and Bankers' Acceptances; provided that:

- (a) subject to Section 5.5, the Term Commitments, and the Equivalent Amount in Cdn. Dollars of all Accommodation outstanding under the Term Credit, will not, at any time, exceed the amount set out as the "Total Commitment" in Column 4 of Schedule 1.1(tt) annexed hereto (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement); and
- (b) subject to Section 5.5, the individual Term Commitment of each Term Lender shall be equal to, and the Equivalent Amount in Cdn. Dollars of all Accommodation outstanding under the Term Credit advanced by such Lender will not, at any time, exceed, such Lender's Term Commitment (as such limit may be revised, adjusted or reduced from time to time pursuant to the provisions of this Agreement).

Section 2.3 Purpose of the Credits

The Borrower shall use the Accommodation obtained by it under the Credits as follows:

- (a) Accommodation under the Operating Credit shall be used solely to finance general operating requirements of the Borrower; and
- (b) Accommodation under the Term Credit shall be used solely to finance: (i) fees and expenses in respect of the Fund Transaction and the Loan Documents, (ii) the repayment of all Debt owing by the Borrower to Norwest and The Bank of Nova Scotia (other than Capitalized Lease Obligations owing to The Bank of Nova Scotia such Capitalized Lease Obligations being not in excess of \$2,000,000 as at February 8, 2005 and not in excess of \$148,270 as at the Closing Date), and (iii) as to any balance, payments to certain Current Securityholders in accordance with the Fund Transaction.

Section 2.4 Borrowings under the Credits

Except as otherwise specifically stated in this Agreement:

- (a) Operating Credit
 - (i) Each Borrowing by the Borrower under the Revolving Tranche will be:

- (A) made available to the Borrower by the Revolving Lenders simultaneously and in their respective Pro Rata Shares under the Revolving Tranche; and
 - (B) comprised of the same type or types of Accommodation, with identical maturity dates and LIBOR Periods, if applicable, from each Revolving Lender (it being understood that the Issuing Bank shall issue Letters of Credit as a service to and on behalf of all Revolving Lenders in accordance with this Agreement);
 - (ii) Each Borrowing by the Borrower under the Overdraft Tranche by way of Prime Rate Loans or U.S. Base Rate Loans will be made available to the Borrower by the Overdraft Lender in accordance with Section 2.11;
- (b) Term Credit
- Each Borrowing by the Borrower under the Term Credit will be:
- (i) made available to the Borrower by the Term Lenders simultaneously and in their respective Pro Rata Shares under the Term Credit; and
 - (ii) comprised of the same type or types of Accommodation, with identical maturity dates and LIBOR Periods, if applicable, from each Term Lender.
- (c) No Lender will be responsible for any default by any other Lender in its obligation to make Accommodation available to the Borrower nor will the Commitment of any Lender under any Tranche or Credit be increased as a result of any such default, except as provided in this subsection. If any Lender fails to make available any Accommodation under a Tranche or Credit when required under its Commitment (the “**Non-Funding Lender**”) relative to such Tranche or Credit, the Administrative Agent will promptly notify the other Lenders that have Commitments under such Tranche or Credit of such failure, and any Lender that has a Commitment under such Tranche or Credit, upon notice to the Borrower, the Administrative Agent and the other Lenders that have Commitments under such Tranche or Credit, may make available (the “**Additional Accommodation**”) to the Borrower within two (2) Business Days after the applicable Borrowing Date the amount (or if more than one Lender so elects, its Pro Rata Share under such Tranche or Credit, of that portion as nearly as practicable in the opinion of the Administrative Agent) of the Accommodation not funded by the Non-Funding Lender (the “**Failed Accommodation**”). The maturity date of the LIBOR Period applicable to all LIBOR Loans and the maturity date of all Bankers’ Acceptances included in such Additional Accommodation shall be identical to the respective maturity dates of the LIBOR Period for any LIBOR Loans and of any Bankers’ Acceptances, that would have been included in such Failed Accommodation and that were included in the Accommodation made available by the other Lenders on the applicable Borrowing Date. The Lenders, the Borrower and the Administrative Agent shall thereupon enter into documentation, in form and

substance satisfactory to the Administrative Agent, as may be appropriate to evidence the adjustment of the Commitments relative to such Tranche or Credit, necessitated by such Additional Accommodation made by any Lender. Nothing in this subsection shall be deemed to relieve any Lender of its obligation to make any Accommodation available when required to do so under this Agreement, or to prejudice any rights which the Borrower, the Administrative Agent or any other Lender may have against the Non-Funding Lender.

Section 2.5 Notice of Availment

Whenever the Borrower desires to obtain a Borrowing (other than a Borrowing by way of Prime Rate Loans or U.S. Base Rate Loans under the Overdraft Tranche which such Borrowing shall not require the provision of prior written notice), it shall give irrevocable prior written notice to the Administrative Agent (and, in the case of a Letter of Credit to be issued by the Issuing Bank, to the Issuing Bank) in substantially the form of Schedule 2.5 (a “**Notice of Availment**”) specifying, among other things, the date upon which such Borrowing is to be obtained.

Section 2.6 Notice Periods

A Notice of Availment requesting a Borrowing under any Credit (other than Prime Rate Loans or U.S. Base Rate Loans under the Overdraft Tranche) shall be given:

- (a) for all Accommodation other than by way of a LIBOR Loan, by way of Bankers’ Acceptances or by way of a Letter of Credit, prior to 10:00 am (Toronto time) on the day which is one (1) Business Day preceding the Borrowing Date;
- (b) for all Accommodation by way of Bankers’ Acceptances, prior to 10:00 am (Toronto time) on a day which is two (2) Business Days preceding the Borrowing Date; and
- (c) for all Accommodation by way of a LIBOR Loan or a Letter of Credit, prior to 10:00 am (Toronto time) on a day which is three (3) Business Days preceding the Borrowing Date,

provided however, that no Accommodation will be made if the term of such Accommodation, or any LIBOR Period applicable to such Accommodation, would mature beyond the Maturity Date of such Credit. The Administrative Agent will promptly notify the applicable Lenders of the proposed Borrowing and the particulars of the Accommodation to be made available by each Lender.

Section 2.7 Manner of Advance

- (a) Except for Borrowings under the Overdraft Tranche, each Lender shall transfer to the Administrative Agent’s Payment Branch for value prior to 11:00am (Toronto time) on each applicable Borrowing Date in immediately available Cdn. Dollars or U.S. Dollars, as the case may be, its Pro Rata Share of:

- (i) any Prime Rate Loan, U.S. Base Rate Loan or LIBOR Loan to be made on such Borrowing Date in an aggregate amount equal to the amount set out in the Notice of Availment; and
 - (ii) all BA Discount Proceeds in respect of any Bankers' Acceptance accepted and purchased by it on such Borrowing Date, or any BA Loan to be made by it on such Borrowing Date, in each case net of the Applicable Stamping Fee payable to such Lender pursuant to Section 4.5.
- (b) The Administrative Agent may designate such other accounts and offices as it sees fit for the purposes referred to in Section 2.7(a).
- (c) Subject to any direction given to the Administrative Agent by the Borrower, the Administrative Agent shall make all amounts received by it from the Lenders pursuant to Section 2.7(a) available to the Borrower by depositing the same for value prior to noon (Toronto time) on the applicable Borrowing Date to such account in Canada in the name of the Borrower as the Borrower shall have previously designated by timely notice in writing to the Administrative Agent.

Section 2.8 Bankers' Acceptances

- (a) Promptly following receipt of a Notice of Availment requesting Bankers' Acceptances, the Administrative Agent shall advise the applicable Lenders of the face amount and term of each Draft to be accepted by it and whether such Lender is required by such Notice of Availment to purchase the Bankers' Acceptances accepted by it.
- (b) The term of all Bankers' Acceptances issued pursuant to any Notice of Availment shall be identical. The aggregate face amount of Bankers' Acceptances issued pursuant to any Notice of Availment shall not be less than \$2,000,000 and in multiples of \$100,000 thereafter. Each Bankers' Acceptance shall be dated the Borrowing Date on which it is issued, and shall be for a term of 30 days, without grace, provided that in no event shall the applicable maturity of a Bankers' Acceptance extend beyond the Maturity Date for the applicable Tranche or Credit.
- (c) The aggregate face amount of the Drafts to be accepted at any time by a Lender shall be determined by the Administrative Agent based on such Lender's Pro Rata Share, except that, if the face amount of any Draft to be accepted by a Lender, determined as provided for above, would not be \$1,000 or a whole multiple of \$1,000, the Administrative Agent shall either increase or decrease such face amount to the nearest whole multiple of \$1,000 except that, in the case of a requested Borrowing under the Term Credit, the Administrative Agent shall decrease such face amount to the nearest whole multiple of \$1,000, with the balance being advanced or continued by way of Prime Rate Loans.
- (d) Each Lender shall complete and accept Drafts on the applicable Borrowing Date having the face amounts and term advised by the Administrative Agent pursuant to Section 2.8(a). Unless not required to do so pursuant to any Notice of

Availment, each Lender shall purchase on the applicable Borrowing Date the Bankers' Acceptances accepted by it, for an aggregate price equal to the BA Discount Proceeds of such Bankers' Acceptances and shall make such amount available to the Administrative Agent prior to 11:00 a.m. (Toronto time) on the applicable Borrowing Date.

- (e) In order to facilitate the issuance of Bankers' Acceptances pursuant to this Agreement, the Borrower hereby authorizes each of the applicable Lenders as the Borrower's attorney, to complete, sign and endorse drafts or depository bills (as defined in the *Depository Bills and Notes Act* (Canada) (each such executed draft or bill being herein referred to as a "**Draft**") on its behalf in handwritten form or by facsimile or mechanical signature or otherwise in accordance with the applicable Notice of Availment and, once so completed, signed and endorsed to accept them as Bankers' Acceptances under this Agreement and then, if applicable, purchase, discount or negotiate such Bankers' Acceptances in accordance with the provisions of this Agreement. Drafts so completed, signed, endorsed and negotiated on behalf of the Borrower by an applicable Lender shall bind the Borrower as fully and effectively as if so performed by an authorized officer of the Borrower. Each Draft of a Bankers' Acceptance completed, signed or endorsed by a Lender shall mature on the last day of the stated term thereof.
- (f) Any Drafts to be used for Bankers' Acceptances shall be held by the applicable Lender in safekeeping with the same degree of care as if they were such Lender's own property being kept at the place at which they are to be held. The Borrower may, by written notice to the Administrative Agent, designate persons other than Responsible Officers of the Borrower to give the Administrative Agent instructions regarding the manner in which Drafts are to be completed and the times at which they are to be issued; provided however that receipt by the Administrative Agent of a Notice of Availment requesting a Borrowing by way of Bankers' Acceptances shall be deemed to be sufficient authority from Responsible Officers of the Borrower or such designated persons for each of the applicable Lenders to complete, and issue Drafts in accordance with such notice. None of the Administrative Agent nor any of the applicable Lenders nor any of their respective directors, officers, employees, agents, representatives, Affiliates or controlling Persons (each, an "**Indemnified Party**") shall be liable for any action taken or omitted to be taken by any of them under this Section 2.8(f) except for liability which is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or wilful misconduct.
- (g) On the date of maturity of each Bankers' Acceptance, the Borrower shall pay to the Administrative Agent, for the account of the holder of such Bankers' Acceptance, Cdn. Dollars in an amount equal to the face amount of such Bankers' Acceptance. The obligation of the Borrower to make such payment shall not be prejudiced by the fact that the holder of any such Bankers' Acceptance is the Lender that accepted such Bankers' Acceptance. No days of grace shall be claimed by the Borrower for the payment at maturity of any Bankers' Acceptance.

If the Borrower does not make such payment, from the proceeds of Accommodation obtained under this Agreement or otherwise, the Lender that accepted such Bankers' Acceptance shall, without receipt of a Notice of Availment, irrespective of whether any applicable conditions precedent under this Agreement have been met and without waiver of any Default or Event of Default hereunder, make a Prime Rate Loan to the Borrower under the applicable Tranche or Credit in the face amount of such Bankers' Acceptance and shall promptly give notice of such Loan to the Borrower and the Administrative Agent (which shall promptly give similar notice to the other Lenders). The Borrower agrees to accept each such Prime Rate Loan and irrevocably authorizes and directs the applicable Lender to apply the proceeds of each such Loan in payment of the liability of the Borrower with respect to the related Bankers' Acceptance.

- (h) Each applicable Lender may from time to time hold, sell, rediscount or otherwise dispose of any or all Bankers' Acceptances accepted and purchased by it.
- (i) The Borrower waives presentment for payment and any other defence to the payment of any amounts due to any applicable Lender in respect of a Bankers' Acceptance accepted and purchased by it pursuant to this Agreement which might exist solely by reason of the Bankers' Acceptance being held, at the maturity thereof, by such Lender in its own right and the Borrower agrees not to claim any days of grace if such Lender as holder sues the Borrower on the Bankers' Acceptance for payment of the amount payable by the Borrower thereunder.
- (j) If any Bankers' Acceptance is outstanding on the Maturity Date with respect to any Tranche or Credit, or at any time that an Event of Default occurs and is continuing, the Borrower will, or will cause a Subsidiary of the Borrower to, immediately upon demand by the Administrative Agent provide to the Administrative Agent, for the account of the holder of such Bankers' Acceptance, Cash Collateral in an amount equal to the face amount of such Bankers' Acceptance (together with such security agreement, officers' certificates and legal opinions as the Administrative Agent may reasonably request). Such Cash Collateral (together with interest thereon) shall be held by the Administrative Agent, subject to Section 10.4, for payment of the liability of the Borrower in respect of such Bankers' Acceptance and shall bear interest for such terms as are selected from time to time by the Administrative Agent at the wholesale money market rate of the Administrative Agent for deposits of similar amounts and maturities. Any balance of such funds (and interest thereon) remaining after payment or retirement of such liability shall be held by the Administrative Agent as security for the remaining liabilities of the Borrower under the Loan Documents for so long as any Event of Default is continuing.
- (k) The amount of Accommodation constituted by any Bankers' Acceptance shall be the face amount of such Bankers' Acceptance.
- (l) Notwithstanding anything contained in this Agreement or any other Loan Document, if a Lender is a Non BA Lender, such Lender shall make available to

the Borrower prior to 11:00 a.m. on the applicable Borrowing Date, a Cdn. Dollar loan (a "**BA Loan**") in the principal amount equal to such Lender's Pro Rata Share under the applicable Tranche or Credit, of the total amount of Borrowings requested by way of Bankers' Acceptances pursuant to the applicable Notice of Availment, such BA Loan to be funded in the same manner as provided in Section 2.7. Such BA Loan shall have the same term as the Bankers' Acceptances for which it is a substitute and shall permit such Lender to obtain the same effective rate as if such Lender had been paid the Applicable Stamping Fee for accepting a Bankers' Acceptance and purchased such Bankers' Acceptance at a discount from the face amount of such Bankers' Acceptance calculated at the discount rate per annum equal to the BA Non-Schedule I Discount Rate for the term of such Bankers' Acceptance, on the basis, and the Borrower hereby agrees that, for each such BA Loan, interest shall be payable in advance on the date of such extension of credit by such Lender deducting the interest payable in respect thereof from the principal amount of such BA Loan.

Section 2.9 LIBOR Loans

- (a) The aggregate amount of all LIBOR Loans advanced pursuant to any Notice of Availment under any Credit shall not be less than U.S. \$2,000,000 and in multiples of U.S. \$100,000 thereafter
- (b) The first LIBOR Period for any LIBOR Loan shall commence on (and include) the first Borrowing Date for such LIBOR Loan, and each LIBOR Period occurring after such first LIBOR Period for such LIBOR Loan shall commence on (and include) the last day of the immediately preceding LIBOR Period for such LIBOR Loan. Notwithstanding the foregoing:
 - (i) if the Administrative Agent has not received a Notice of Availment with respect to any outstanding LIBOR Loan in accordance with Section 3.2, Section 3.4 or Section 3.5, such LIBOR Loan shall automatically be converted on the expiry of such existing LIBOR Period to a U.S. Base Rate Loan under the applicable Tranche or Credit relating to such LIBOR Loan;
 - (ii) if any LIBOR Period would otherwise end on a day which is not a Business Day, such LIBOR Period shall end on the immediately preceding Business Day; and
 - (iii) No LIBOR Period chosen under any Credit may extend beyond the Maturity Date for such Credit.
- (c) Notwithstanding any other provision in this Agreement or in any other Loan Document, LIBOR Loans will not be requested by the Borrower in any Notice of Availment under any Credit or in any other manner and the Lenders shall not and shall not be required to advance, and shall not be deemed to have advanced,

LIBOR Loans under any Credit or under any Tranche of any Credit or for any other reason.

Section 2.10 Letters of Credit

- (a) Each Letter of Credit (including all documents and instruments required to be presented under such Letter of Credit) shall be satisfactory in form and substance to the Issuing Bank.
- (b) Notwithstanding any other provision in this Agreement, no Letter of Credit shall be issued (or shall be renewable at the option of the beneficiary under such Letter of Credit):
 - (i) for a term which: (A) in the case of Letters of Credit other than a documentary letters of credit, would extend beyond the date which is 364 days from the date of issuance by the Issuing Bank, or (B) in the case of documentary letters of credit, would extend beyond the date which is 180 days from the date of issuance by the Issuing Bank; or
 - (ii) in the event that the aggregate face amount of all Letters of Credit then issued by the Issuing Bank (or which may be issued if such Letter of Credit be issued or renewed) together with all other Accommodation of the Lenders under the Operating Credit would exceed the aggregate Revolving Commitments of all Revolving Lenders at such time.
- (c) A Letter of Credit may be in Cdn. Dollars or U.S. Dollars.
- (d) As a condition of the issuance of any Letter of Credit requested by the Borrower, the Borrower shall pay to the Administrative Agent the related fees as specified in and to be distributed in the manner stipulated in Section 4.6 and shall execute and deliver to the Issuing Bank, the then current standard form letter of credit application or irrevocable documentary credit application (which shall constitute a Loan Document) of the Issuing Bank. The Borrower shall also pay directly to the Issuing Bank (for the account of the Issuing Bank) the Issuing Bank's customary cable charges and other administrative charges in respect of the issue of such Letter of Credit, the amendment or transfer of such Letter of Credit, each renewal of such Letter of Credit and each drawing made under such Letter of Credit, as applicable.
- (e) In the event that the Issuing Bank is required to make any payment under any Letter of Credit issued by it at the request of the Borrower, the Issuing Bank shall immediately notify the Borrower and the Administrative Agent of the amount of the payment and the date it is to be made. Unless, prior to noon (Toronto time) on such payment date, the Borrower notifies the Administrative Agent and the Issuing Bank of its intention to reimburse the Issuing Bank for the amount of such payment and such amount is received by the Issuing Bank on or prior to the payment date, then:

- (i) the Borrower shall be deemed to have requested a U.S. Base Rate Loan under the Revolving Tranche (if such Letter of Credit was issued in U.S. Dollars) or a Prime Rate Loan under the Revolving Tranche (if such Letter of Credit was issued in Cdn. Dollars) in an aggregate amount equal to the amount of such payment in U.S. Dollars or Cdn. Dollars, as the case may be, for advance on such payment date; and
 - (ii) the Administrative Agent shall pay the proceeds of the requested Borrowing to the Issuing Bank in Cdn. Dollars or U.S. Dollars, as the case may be, as reimbursement for the amount of the payment under such Letter of Credit.
- (f) The Borrower shall be deemed to have requested and the Revolving Lenders shall be deemed to have provided the Accommodation referred to in Section 2.10(e)(i) notwithstanding:
 - (i) non-compliance with any of the notice, minimum amount or other requirements for the provision of any Accommodation set out in this Agreement; or
 - (ii) the existence or continuance of any Default or Event of Default.
- (g) If any Letter of Credit is outstanding on the Maturity Date with respect to the Operating Credit, or at any time that an Event of Default has occurred and is continuing, or at any time that a domestic or foreign court issues any judgement or order restricting or prohibiting payment by the Issuing Bank under such Letter of Credit until a date beyond the Maturity Date with respect to the Operating Credit or extending the liability of such Issuing Bank to make payment under such Letter of Credit beyond such Maturity Date, the Borrower shall immediately upon demand by the Issuing Bank pay to the Administrative Agent, for the account of the Issuing Bank, funds in the currency of such Letter of Credit and in the amount of the Accommodation constituted by such Letter of Credit. Such funds (together with interest on such funds) shall be held by the Administrative Agent, subject to Section 10.4, for payment of the liability of the Borrower pursuant to Section 2.10(e) or otherwise in respect of such Letter of Credit so long as the Issuing Bank has, or may in any circumstance have, any liability under such Letter of Credit, and shall bear interest for such terms as are selected from time to time by the Administrative Agent at the wholesale money market rate of the Administrative Agent for deposits of similar currency, amounts and maturities. Any balance of such funds and interest remaining at such time as the Issuing Bank no longer has any present or future liability under such Letter of Credit shall nevertheless continue to be held by the Administrative Agent for so long as an Event of Default is subsisting, as security for the remaining liabilities of the Borrower under the Loan Documents.
- (h) For the purpose of calculating outstanding Accommodation in respect of a Letter of Credit and for any other relevant provision of this Agreement:

- (i) the amount of Accommodation constituted by any Letter of Credit issued shall be the maximum Equivalent Amount in Cdn. Dollars which the Issuing Bank has calculated and may in any circumstance be required to pay pursuant to the terms of such Letter of Credit. Such Issuing Bank shall provide to the Administrative Agent details of all calculations of any conversion of such amount into Cdn. Dollars; and
- (ii) upon the issuance of any Letter of Credit by the Issuing Bank, each of the Revolving Lenders shall be deemed to have provided an Accommodation under the Revolving Tranche of the amount of the Letter of Credit (as calculated in accordance with Section 2.10(h)(i) immediately above) each in accordance with their respective Pro Rata Share of the Revolving Commitments.

Section 2.11 Loans under the Overdraft Tranche

The Borrower shall open a Cdn. Dollar operating account (the “**Cdn. Account**”) and a U.S. Dollar operating account (the “**U.S. Account**”) with the Overdraft Lender under the Overdraft Tranche. Subject to the limitations set forth in this Agreement, the Borrower shall be entitled to obtain Prime Rate Loans by way of overdraft on the Cdn. Account and shall be entitled to obtain U.S. Base Rate Loans by way of overdraft on the U.S. Account in each case without the provision of a Notice of Availment and without limitation as to the minimum amount so obtained. The aggregate amount of all cheques drawn (and electronic payments made) and debited to such Cdn. Account on each day, net of the credit balance deposited or credits to such account during such day, shall be deemed to be a request by the Borrower for a Prime Rate Loan under the Overdraft Tranche. The aggregate amount of all cheques drawn (and electronic payments made) and debited to such U.S. Account during such day, net of the credit balance deposited or credits to such account during such day, shall be deemed to be a request by the Borrower for a U.S. Base Rate Loan under the Overdraft Tranche.

Section 2.12 Administrative Agent’s, Overdraft Lender’s and Issuing Bank’s Records

- (a) The Administrative Agent will maintain the Register and records for each Lender evidencing (other than with respect to the Overdraft Tranche): (i) the indebtedness and obligations of the Borrower to each Lender under this Agreement in respect of outstanding Accommodation and accrued interest thereon, fees in respect thereof, and other amounts payable under this Agreement; (ii) the types of Accommodation outstanding from each Lender to the Borrower from time to time and the date or dates on which such Accommodation was made; and (iii) the amounts from time to time paid by the Borrower to each Lender under this Agreement on account of such Accommodation, interest, fees and other amounts. The Borrower acknowledges, confirms and agrees that the Register and all such records kept by the Administrative Agent shall constitute *prima facie* evidence of the matters referred to above; provided, however, that the failure of the Administrative Agent to make any entry or recording in the Register or any such records shall not limit or otherwise affect the obligations of the Borrower under

this Agreement or with respect to any Accommodation, interest, fees or other amounts owed to any Lender.

- (b) The Overdraft Lender will maintain records evidencing: (i) the indebtedness and obligations of the Borrower to the Overdraft Lender under this Agreement in respect of outstanding Accommodation under the Overdraft Tranche and accrued interest thereon, fees in respect thereof and other amounts payable in connection with any of the foregoing under this Agreement; (ii) the types of Accommodation outstanding from the Overdraft Lender to the Borrower from time to time and the date or dates on which such Accommodation was made available to the Borrower; and (iii) the amounts from time to time paid by the Borrower to the Overdraft Lender under this Agreement on account of such Accommodation, interest, fees and other amounts. The Borrower acknowledges, confirms and agrees that all such records kept by the Overdraft Lender shall constitute *prima facie* evidence of the matters referred to above; provided, however, that the failure of the Overdraft Lender to make any entry or recording in any such records shall not limit or otherwise affect the obligations of any Borrower under this Agreement or with respect to any such Accommodation, interest, fees or other amounts owed to the Overdraft Lender.
- (c) The Issuing Bank will maintain records evidencing: (i) the indebtedness and obligations of the Borrower to the Issuing Bank under this Agreement in respect of outstanding Accommodation by way of Letters of Credit under the Revolving Tranche and accrued interest thereon, fees in respect thereof and other amounts payable in connection with any of the foregoing under this Agreement; (ii) the amounts from time to time paid by the Borrower to the Issuing Bank under this Agreement on account of such Accommodation, interest, fees and other amounts. The Borrower acknowledges, confirms and agrees that all such records kept by the Issuing Bank shall constitute *prima facie* evidence of the matters referred to above; provided, however, that the failure of the Issuing Bank to make any entry or recording in any such records shall not limit or otherwise affect the obligations of the Borrower under this Agreement or with respect to any such Accommodation, interest, fees or other amounts owed to the Issuing Bank.

Section 2.13 Optional Reduction of Revolving Commitments or Overdraft Commitment

Upon at least three (3) Business Days prior written notice (or telephonic notice promptly confirmed in writing) to the Administrative Agent (which notice the Administrative Agent shall promptly transmit to each of the Lenders), the Borrower shall have the right, without premium or penalty, on any day, to permanently terminate or reduce the Revolving Commitments or the Overdraft Commitment in each case in whole or in part, provided that: (i) any such reduction shall apply proportionately and permanently to reduce the applicable Commitment of each applicable Lender; (ii) any partial reduction pursuant to this Section 2.13 shall be in the amount of at least \$500,000 in respect of either the Revolving Commitments or the Overdraft Commitment; and (iii) after giving effect to such termination or reduction and to any prepayments of Accommodation: (A) the aggregate outstanding Accommodation under the Revolving Tranche plus the aggregate outstanding Accommodation under the Overdraft Tranche,

shall not exceed the aggregate Revolving Commitments as so reduced, and (B) the aggregate outstanding Accommodation under the Overdraft Tranche shall not exceed the Overdraft Commitment as so reduced, and the Administrative Agent shall, as soon as possible following receipt of any notice referred to in this Section 2.13, advise each of the Lenders and prepare and give copies to the Borrower and each of the Lenders a revised Schedule 1.1(tt) setting out the revised, adjusted or reduced Commitment for the applicable Tranche for the applicable Lenders.

Section 2.14 Maturities

There shall not be outstanding under the Revolving Tranche, or the Term Credit, at any time, Accommodation by way of Bankers' Acceptances or LIBOR Loans, having among them, more than twelve (12) different maturity dates.

ARTICLE 3 ROLLOVERS AND CONVERSIONS

Section 3.1 Bankers' Acceptances

Subject to the terms and conditions of this Agreement and provided that the Administrative Agent has received a Notice of Availment in accordance with Section 3.3, requesting the applicable Lenders to accept Drafts (or, if applicable, advance BA Loans) to replace all or a portion of outstanding Bankers' Acceptances as they mature, such Lenders shall, on the maturity of such Bankers' Acceptances and concurrent with the payment by the Borrower to the Administrative Agent of the face (or, if applicable, principal) amount of such Bankers' Acceptances or the portion thereof to be replaced (the "**Maturing Amount**") (or arrangements satisfactory to the Administrative Agent being effected to ensure the BA Discount Proceeds from the replacement Bankers' Acceptances are applied to repay the Maturing Amount and the Borrower concurrently paying to the Administrative Agent any positive difference between the Maturing Amount and such BA Discount Proceeds), accept (and purchase if required) on the terms herein Drafts (or, if applicable, advance BA Loans) having an aggregate face (or, if applicable, principal) amount equal to the Maturing Amount.

Section 3.2 LIBOR Loans

Subject to the terms and conditions of this Agreement (including Section 2.9(c) hereof) and provided that the Administrative Agent has received a Notice of Availment in accordance with Section 3.3 requesting the applicable Lenders to continue to extend credit by way of LIBOR Loans following the expiry of the applicable LIBOR Period, the applicable Lenders shall, on the expiry of such LIBOR Period, continue to provide Accommodation to the Borrower by way of a LIBOR Loan (without a further advance of funds to the Borrower) in the principal amount equal to the principal amount of the outstanding LIBOR Loan or the portion thereof to be continued as a LIBOR Loan for the further LIBOR Period chosen.

Section 3.3 Notice of Rollover

The Notice of Availment to be given to the Administrative Agent pursuant to Section 3.1 or Section 3.2 shall be irrevocable and shall specify, among other things, the maturity date of any applicable Bankers' Acceptance or the last day of any applicable LIBOR Period.

Section 3.4 Converting One Type of Loan into Another Type of Loan

Subject to the terms and conditions of this Agreement (including Section 2.9(c) hereof) and provided that the Administrative Agent has received a Notice of Availment in accordance with Section 3.7 requesting the applicable Lenders to convert all or a portion of a Loan of a particular type outstanding under any Tranche or Credit into another type of Loan available under such Tranche or Credit pursuant to the terms of the Agreement, the applicable Lenders shall, on the applicable Borrowing Date continue to provide Accommodation to the Borrower by way of the type of Loan into which the outstanding Loan (or a portion thereof) is converted (without a further advance of funds to the Borrower) in the aggregate principal amount equal to the principal amount of the outstanding Loan or the portion thereof which is being converted.

Section 3.5 Converting a Loan to Bankers' Acceptances

Subject to the terms and conditions of this Agreement and provided that the Administrative Agent has received a Notice of Availment in accordance with Section 3.7, requesting the applicable Lenders to accept (and if required, purchase) Drafts (or, if applicable, advance BA Loans) to replace all or a portion of an outstanding Loan under the applicable Tranche or Credit, then upon receipt by each such Lender on the applicable Borrowing Date of a payment equal to the principal amount of the outstanding Loan so converted, each such Lender shall accept (and if required, purchase) Drafts (or, if applicable, advance BA Loans) in an aggregate face (or, if applicable, principal) amount equal to the outstanding principal amount (or the Equivalent Amount in Cdn. Dollars of any U.S. Base Rate Loan or LIBOR Loan being so converted) of the Loans being so converted.

Section 3.6 Converting Bankers' Acceptances to a Loan

Subject to the terms and conditions of this Agreement (including Section 2.9(c) hereof) and provided that the Administrative Agent has received a Notice of Availment in accordance with Section 3.7 requesting the applicable Lenders to convert all or a portion of any outstanding maturing Bankers' Acceptances into a type of Loan available under the applicable Tranche or Credit, each such Lender shall, upon the maturity date of such Bankers' Acceptances accepted (or, if applicable, advanced) by it, provide Accommodation to the Borrower by way of the type of Loan into which the matured Bankers' Acceptances or a portion thereof are being converted in a principal amount equal to the aggregate face (or, if applicable, principal) amount (or the Equivalent Amount in U.S. Dollars) of the matured Bankers' Acceptances or the portion thereof which are being converted.

Section 3.7 Notice of Conversion

A Notice of Availment to be given to the Administrative Agent pursuant to Section 3.4, Section 3.5 or Section 3.6 shall be irrevocable and shall specify, among other things, the date on which the conversion is to take place.

ARTICLE 4 INTEREST AND FEES

Section 4.1 Loans in Respect of Operating Credit and Term Credit

Unless otherwise specifically provided herein, each Prime Rate Loan, U.S. Base Rate Loan and LIBOR Loan under the Operating Credit or Term Credit shall bear interest, in the case of Prime Rate Loans and U.S. Base Rate Loans, from the Borrowing Date for such Loan to the date of repayment of such Loan and, in the case of LIBOR Loans, during each LIBOR Period applicable to such Loan, on the unpaid amount of such Loan calculated (but not compounded) daily at a nominal rate per annum for each such Loan equal to the Applicable Reference Rate for such type of Loan in effect from time to time plus an additional spread (the “**Applicable Loan Spread**”) determined in accordance with the provisions of this Section 4.1. The Applicable Loan Spread for each type of Loan will change, from time to time but not more frequently than quarterly, based on changes to the Total Funded Debt to EBITDA Ratio for the Borrower’s most recently completed Four Quarter Period, with the Applicable Loan Spread for each type of Loan to be reset (including, for greater certainty, for that portion of the remaining term of any LIBOR Loans then outstanding), effective as of the third Business Day following the date the Compliance Certificate for such Fiscal Quarter is delivered to the Administrative Agent (each such Business Day, a “**Reset Date**”), to that amount indicated below for each type of Loan where the Total Funded Debt to EBITDA Ratio, based on the Compliance Certificate delivered for the Fiscal Quarter ending immediately prior to the applicable Reset Date, is as set out below:

Level	Total Funded Debt to EBITDA Ratio	Prime Rate Loans	U.S. Base Rate Loans	LIBOR Loans
I	<1.5:1	1.00%	1.00%	2.00%
II	≥1.5:1 but <2.0:1	1.50%	1.50%	2.50%
III	≥2.0:1 but < 2.5:1	2.00%	2.00%	3.00%
IV	≥2.5:1	2.25%	2.25%	3.25%

For greater certainty, in the event the Applicable Loan Spread changes on any Reset Date, such new Applicable Loan Spread shall apply to any outstanding LIBOR Loans and the amount of the underpayment or overpayment by the Borrower of interest in respect of such LIBOR Loans during the period from the relevant Reset Date to and including the date of maturity of all such outstanding LIBOR Loans shall be determined by the Administrative Agent which shall notify the Borrower and the Lenders of such amount. Such determination by the Administrative Agent shall constitute, in the absence of manifest error, *prima facie* evidence of the amount of such underpayment or overpayment, as the case may be, by the Borrower. In the event of any underpayment by the Borrower, the Borrower shall, upon receipt of notice from the Administrative Agent, pay to the Administrative Agent (for distribution to each of the Lenders in accordance with its Pro Rata Share), the amount of such underpayment. In the event of an overpayment by the Borrower, the amount of the overpayment shall be credited and applied to succeeding payments of interest by the Borrower as they became due until the amount of such overpayment has been fully applied.

Section 4.2 Overdue Principal and Interest

- (a) If all or part of any Prime Rate Loan, U.S. Base Rate Loan or LIBOR Loan shall not be paid when due (whether at its stated maturity, by acceleration or otherwise), such overdue amount shall bear interest (as well after as before judgment), payable on demand, at a rate per annum equal to the rate of interest applicable under this Agreement from time to time to such Loan plus 2% per annum, in each case from the date of such non-payment until paid in full.
- (b) If all or part of any interest in respect of any Prime Rate Loan, U.S. Base Rate or LIBOR Loan shall not be paid when due (whether at its stated maturity, by acceleration or otherwise), such overdue interest shall bear interest (as well after as before judgment), payable on demand, at a rate per annum equal to the rate of interest applicable under this Agreement from time to time to the type of Loan in respect of which such interest was not paid plus 2% per annum, in each case from the date of such non-payment until paid in full.

Section 4.3 Interest on Other Amounts

Unless otherwise specifically stated in Section 4.2 or elsewhere in any Loan Document, any amount owed by the Borrower to the Administrative Agent or to any Lender under any of the Loan Documents that is not paid when due and payable, shall bear interest (as well after as before judgement), payable on demand in Cdn. Dollars at a rate per annum equal at all times to the Prime Rate plus the Applicable Loan Spread in respect of Prime Rate Loans at such time plus 4% per annum (in the case of any such amount payable in Cdn. Dollars to the Administrative Agent or any Lender) or in U.S. Dollars at a rate per annum equal at all times to the U.S. Base Rate plus the Applicable Loan Spread in respect of U.S. Base Rate Loans at such time plus 4% per annum (in the case of any such amount payable in U.S. Dollars to the Administrative Agent or the applicable Lender) in each such case from the date of non-payment until paid in full. Each such rate per annum shall change automatically without notice to the Borrower as and when the Prime Rate or the U.S. Base Rate, as the case may be, shall change so that at all times the interest payable under this Section 4.3 shall be based on the Prime Rate or the U.S. Base Rate, as the case may be, then in effect.

Section 4.4 Interest Payment Dates

- (a) Except as specified in Section 4.2(a), interest in respect of Prime Rate Loans and U.S. Base Rate Loans shall be payable monthly in arrears on the first Business Day of each month.
- (b) Except as specified in Section 4.2(b), interest in respect of each LIBOR Loan shall be payable on the last day of each LIBOR Period of three months or less applicable to such LIBOR Loan and, with respect to each LIBOR Period of longer than three months applicable to such LIBOR Loan, at the end of each three-month period during such LIBOR Period and on the last day of such LIBOR Period.

Section 4.5 Fees for Bankers' Acceptances

The Borrower shall pay to the applicable Lender in respect of each Draft accepted (or, if applicable, BA Loan advanced) by such Lender, as a condition of such acceptance (or advance), a fee in Cdn. Dollars calculated on the basis of the face or principal amount and the term of such Bankers' Acceptance and a rate per annum equal to the stamping fee (the "**Applicable Stamping Fee**") in effect on the date of such acceptance as determined in accordance with the provisions of this Section 4.5. The Applicable Stamping Fee will change, from time to time but not more frequently than quarterly, based on changes to the Total Funded Debt to EBITDA Ratio for the Borrower's most recently completed Four Quarter Period with the Applicable Stamping Fee to be reset (including, for greater certainty, for that portion of the remaining term of any Bankers' Acceptances and BA Loans then outstanding), effective as of each Reset Date, to that amount indicated below where the Total Funded Debt to EBITDA Ratio, based on the Compliance Certificate delivered for the Fiscal Quarter ending immediately prior to such Reset Date, is as set out below.

Level	Total Funded Debt to EBITDA Ratio	Applicable Stamping Fee
I	<1.5:1	2.00%
II	≥1.5:1 but <2.0:1	2.50%
III	≥2.0:1 but < 2.5:1	3.00%
IV	≥2.5:1	3.25%

For greater certainty, in the event the Applicable Stamping Fee changes on any Reset Date, such new Applicable Stamping Fee shall apply to any outstanding Bankers' Acceptances and the amount of the underpayment or overpayment by the Borrower of stamping fees during the period from the relevant Reset Date to and including the date of maturity of all such outstanding Bankers' Acceptances shall be determined by the Administrative Agent which shall notify the Borrower and the Lenders of such amount. Such determination by the Administrative Agent shall constitute, in the absence of manifest error, *prima facie* evidence of the amount of such underpayment or overpayment, as the case may be, by the Borrower. In the event of any underpayment by the Borrower, the Borrower shall, upon receipt of notice from the Administrative Agent, pay to the Administrative Agent (for distribution to each of the Lenders in accordance with its Pro Rata Share), the amount of such underpayment. In the event of an overpayment by the Borrower, the amount of the overpayment shall be credited and applied to succeeding payments of interest by the Borrower as they became due until the amount of such overpayment has been fully applied.

Section 4.6 Fees for Letters of Credit

The Borrower shall pay to the Administrative Agent (for distribution to the Issuing Bank and the Revolving Lenders in the manner as set out below) on the date of issuance or renewal of any Letter of Credit at the request of the Borrower and on each anniversary date

thereof if the term of such Letter of Credit is longer than a year, a fee in the currency of such Letter of Credit (an “**LC Fee**”) equal to the greater of:

- (a) \$100.00 (in the currency of such Letter of Credit) or such other greater amount representing the Issuing Bank’s minimum fee for issuing Letters of Credit as established by the Issuing Bank from time to time; and
- (b) the amount calculated, at the rate per annum equal to the rate (the “**Applicable LC Fee Rate**”) in effect on the date such fee is due and payable, as determined in accordance with the provisions of this Section 4.6(b), on the basis of the maximum amount of such Letter of Credit for the period of a year or portion thereof during which such Letter of Credit is outstanding (provided that any such portion thereof is measured in 30 day increments such that, in respect of all Letters of Credit which are not Documentary LCs, periods of less than 30 days shall be measured, for the purposes of this Section 4.6(b), as a complete 30 day increment and, in respect of all Letters of Credit which are Documentary LCs, if the initial term to maturity of such Documentary LC is for a period of less than 30 days then such period of less than 30 days shall be measured, for the purposes of this Section 4.6(b), as a complete 30 day increment). The Applicable LC Fee Rate will change from time to time but not more frequently than quarterly based on changes to the Total Funded Debt to EBITDA Ratio for the Borrower’s most recently completed Four Quarter Period with the Applicable LC Fee Rate to be reset (including, for greater certainty, for that portion of the remaining term of any Letters of Credit then outstanding), effective as of each Reset Date, to that amount indicated below for each Letter of Credit where the Total Funded Debt to EBITDA Ratio, based on the Compliance Certificate delivered for such Fiscal Quarter, is as set out below:

Level	Total Funded Debt to EBITDA Ratio	Applicable LC Fee Rate - Documentary LCs	Applicable LC Fee Rate - All Letters of Credit (other than a Documentary LC)
I	<1.5:1	1.125%	2.125%
II	≥1.5:1 but <2.0:1	1.375%	2.625%
III	≥2.0:1 but < 2.5:1	1.625%	3.125%
IV	≥2.5:1	1.750%	3.375%

For greater certainty, in the event the Applicable LC Fee Rate changes on any Reset Date, such new Applicable LC Fee Rate shall apply to any outstanding Letters of Credit and the amount of the underpayment or overpayment by the Borrower of Letter of Credit fees during the period from the relevant Reset Date to and including the date of maturity of all such outstanding Letters of Credit shall be determined by the Administrative Agent which shall notify the Borrower and the Lenders of such amount. Such determination by the Administrative Agent

shall constitute, in the absence of manifest error, *prima facie* evidence of the amount of such underpayment or overpayment, as the case may be, by the Borrower. In the event of any underpayment by the Borrower, the Borrower shall, upon receipt of notice from the Administrative Agent, pay to the Administrative Agent (for distribution to each of the Lenders in accordance with its Pro Rata Share), the amount of such underpayment. In the event of an overpayment by the Borrower, the amount of the overpayment shall be credited and applied to succeeding payments of interest by the Borrower as they became due until the amount of such overpayment has been fully applied.

Any LC Fee paid to the Administrative Agent hereunder shall be promptly distributed by the Administrative Agent as follows: (i) first to the Issuing Bank, an amount calculated as the greater of: (A) \$100; and (B) 0.125% per annum of the maximum amount of such Letter of Credit for the period of a year or any portion thereof during which such Letter of Credit is outstanding (the “**Fronting Fee**”); and (ii) the balance to each Revolving Lender (for greater certainty, including the Issuing Bank in its capacity as a Revolving Lender) in accordance with their respective Pro Rata Share of the Revolving Commitments. In the event that an outstanding Letter of Credit is cancelled and returned to the Issuing Bank by the beneficiaries thereof in its original form prior to the maturity date as expressly stated on such Letter of Credit, any resulting overpayment by the Borrower as a result of such early cancellation and return as calculated by the Issuing Bank and the Administrative Agent (the “**LC Overpayment**”) shall be credited and applied to succeeding payments of LC Fees by the Borrower as they became due until the amount of such LC Overpayment has been fully applied and, for greater certainty, the Fronting Fee shall be reduced proportionately with the balance of the LC Fees paid in respect of such Letter of Credit which has been cancelled and returned. If an LC Overpayment remains at such time as the Accommodation hereunder is permanently repaid in full and this Agreement is terminated in accordance with its terms, the Administrative Agent shall credit and apply such remaining LC Overpayment to payments of other amounts which may be owing by the Borrower to the Lenders at such time as determined by the Administrative Agent at its sole discretion.

Section 4.7 Standby Fees

(a) Operating Credit

The Borrower shall, until all Accommodation under the Operating Credit has been permanently repaid and the Operating Credit has been terminated, pay to the Administrative Agent for distribution to each Operating Lender in accordance with its Pro Rata Share of the Operating Credit Commitments a standby fee in Cdn. Dollars, calculated on the daily undrawn amount of the Operating Credit Commitment (for greater certainty, Accommodation under the Overdraft Tranche for the purposes of this calculation shall constitute a drawn amount under the Operating Credit Commitment) at a rate per annum equal to the rate (the “**Applicable Standby Fee Rate**”) as determined in accordance with the provisions of this Section 4.7(a). The Applicable Standby Fee Rate will change, from time to time but not more frequently than quarterly, based on changes to the Total Debt to EBITDA Ratio for the Borrower’s most recently completed Four Quarter Period with the Applicable Fee Rate to be reset, effective as of each Reset Date to that amount indicated below where the Total Debt to EBITDA Ratio, based on the Compliance Certificate delivered for such Fiscal Quarter, is as set out below:

Level	Total Funded Debt to EBITDA Ratio	Applicable Standby Fee Rate
I	<1.5:1	0.250%
II	≥1.5:1 but <2.0:1	0.375%
III	≥2.0:1 but < 2.5:1	0.500%
IV	≥2.5:1	0.600%

Accrued standby fees shall be due and payable on the first Business Day of each month in respect of the immediately preceding month and on the Maturity Date (or on the date of earlier termination by any Operating Lender of the Operating Credit).

Section 4.8 Failure to Deliver Compliance Certificate/Default

In the event the Administrative Agent is not provided with a Compliance Certificate for any completed Fiscal Quarter of the Borrower as required pursuant to Section 9.1(i)(iv) of this Agreement until a date (the “**Delivery Date**”) that is after the date that such Compliance Certificate was to have been so received (the “**Scheduled Reset Date**”) then, notwithstanding any other provision of this Agreement, the Applicable Loan Spread, the Applicable Stamping Fee, the Applicable LC Fee Rate and the Applicable Standby Fee Rate for each Credit (collectively, the “**Applicable Margin**”) is to be set at Level IV (as described in Section 4.1, Section 4.5, Section 4.6 and Section 4.7, respectively) for the period from and including the Scheduled Reset Date until the next Reset Date or Scheduled Reset Date, as the case may be.

Section 4.9 Agency, Amendment and Other Fees

In consideration of the Administrative Agent acting as agent under the Loan Documents, the Borrower shall pay to the Administrative Agent fees in amounts, and on the terms and conditions, as set out in the Fees Letter, the Arrangements Letter and any other letter or other agreement which from time to time may be entered into by the Administrative Agent and the Borrower, or as otherwise agreed to in writing from time to time by the Administrative Agent and the Borrower. The Fees Letter, the Arrangements Letter and all such other letters or agreements between the Administrative Agent and the Borrower shall constitute Loan Documents. In addition to all such fees, the Borrower shall pay an amendment fee in the aggregate amount of \$400,000 (the “**Amendment Fee**”) to the Administrative Agent (for distribution to the Lenders on a rateable basis) payable as follows: (a) \$100,000 of the Amendment Fee on the Closing Date (the “**Closing Fee**”), (b) \$300,000 of the Amendment Fee payable as to \$100,000 on each of February 10, 2007, May 10, 2007 and August 10, 2007 (it being agreed that, should the Credits be repaid in full prior to March 31, 2007, the Amendment Fee shall only amount to \$200,000 (the “**Reduced Amendment Fee**”) and the amount of the Reduced Amendment Fee which remains unpaid on the date of such repayment shall continue to be an Outstanding Obligation and shall be paid to the Administrative Agent on or before the time of such repayment).

Section 4.10 Determination of Rates and Basis of Calculation of Interest

- (a) The rates of interest and fees shall be determined by the Administrative Agent, the Overdraft Lender or the Issuing Bank, as the case may be, whenever such determination is required for any purpose of this Agreement, and such determination shall be *prima facie* evidence of such rate.
- (b) All interest in respect of Prime Rate Loans shall be payable in Cdn. Dollars and all interest in respect of U.S. Base Rate Loans and LIBOR Loans shall be payable in U.S. Dollars.
- (c) All interest payments to be made under this Agreement shall be paid without allowance or deduction for deemed re-investment or otherwise, both before and after maturity and before and after default and/or judgment, if any, until payment of the amount on which such interest is accruing, and interest will accrue on overdue interest, if any.
- (d) In calculating interest or fees payable under this Agreement for any period, unless otherwise specifically stated, the first day of such period shall be included and the last day of such period shall be excluded.
- (e) Unless otherwise stated, wherever in this Agreement reference is made to a rate of interest "per annum" or a similar expression is used, such interest will be calculated on the basis of a calendar year of 365 days or 366 days, as the case may be, and using the nominal rate method of calculation, and will not be calculated using the effective rate method of calculation or on any other basis that gives effect to the principle of deemed re-investment of interest.
- (f) For the purposes of the *Interest Act* (Canada) and disclosure under such act, whenever interest to be paid under this Agreement is to be calculated on the basis of a year of 360, 365 or 366 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360, 365 or 366 or such other period of time, as the case may be.
- (g) If the calculation and/or collection of interest in the manner provided for in Section 4.2 is not enforceable by reason of the *Interest Act* (Canada), interest after default on principal and interest amounts shall be at the same rate of interest applicable thereto prior to default.

Section 4.11 Maximum Return

- (a) In the event that any provision of this Agreement would oblige the Borrower to make any payment of interest or any other payment which is construed by a court of competent jurisdiction to be interest in an amount or calculated at a rate which would be prohibited by law or would result in a receipt by the Administrative Agent, the Lenders, or any of them, of interest at a criminal rate (as such terms are

construed under the *Criminal Code* (Canada)), then notwithstanding such provision, such amount or rate shall be deemed to have been adjusted *nunc pro tunc* to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by law or so result in a receipt by the Administrative Agent, the Lenders, or any of them, of interest at a criminal rate, such adjustment to be effected, to the extent necessary, as follows:

- (i) firstly, by reducing the amount or rate of interest otherwise required to be paid under Article 4 of this Agreement; and
 - (ii) thereafter, by reducing any fees, commissions, premiums and other amounts which would constitute interest for the purposes of Section 347 of the *Criminal Code* (Canada);
- (b) If, notwithstanding the provisions of this Section 4.11 and after giving effect to all adjustments contemplated thereby, the Administrative Agent, the Lenders, or any of them, shall have received an amount in excess of the maximum permitted by the *Criminal Code* (Canada), then such excess shall be applied by the Administrative Agent (on behalf of the Lenders) rateably in accordance with each Lenders' Pro Rata Share of the Credits, to the reduction of the principal balance of the Borrowings outstanding and not to the payment of interest or if such excessive interest exceeds such principal balance, such excess shall be refunded to the Borrower; and
- (c) Any amount or rate of interest referred to in this Section 4.11 shall be determined in accordance with generally accepted actuarial practices and principles at an effective annual rate of interest over the term of this Agreement on the assumption that any charges, fees or expenses that fall within the meaning of "interest" (as defined in the *Criminal Code* (Canada)) shall, if they relate to a specific period of time, be prorated over that period of time and otherwise be prorated over the terms of this Agreement and, in the event of dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Administrative Agent (on behalf of the Lenders) shall be conclusive for the purposes of such determination.

ARTICLE 5

REPAYMENT OF ACCOMMODATION

Section 5.1 Optional Repayment

- (a) The Borrower shall have the right to repay from time to time on any Business Day (an "Optional Repayment Date") any Accommodation outstanding hereunder without premium, penalty or bonus but subject to Section 9 of the Provisions, on the following terms and conditions:
- (i) the Borrower shall give to the Administrative Agent irrevocable prior written notice by 12:00 (noon) no less than three (3) Business Days prior to the Optional Repayment Date specifying the amount and the type of

Accommodation and the Tranche or Credit to be repaid (which shall be the same type from each applicable Lender);

- (ii) each repayment of Accommodation pursuant to this subsection under a particular Tranche or Credit shall be allocated (as to both amount and type of Accommodation) to the applicable Lenders under such Tranche or Credit, as the case may be, on the basis of their respective Pro Rata Shares under such Tranche or Credit, as the case may be;
- (iii) the aggregate amount of Accommodation repaid pursuant to this subsection at any time shall be not less than \$500,000 or U.S. \$500,000, as applicable, or an amount in excess thereof which is a whole multiple of \$100,000 or U.S. \$100,000, as applicable (or the amount of all applicable Accommodation then outstanding under the applicable Tranche or Credit, if less);
- (iv) no repayment of any LIBOR Loan shall be made otherwise than upon the expiration of a LIBOR Period applicable to such LIBOR Loan unless the Borrower pays to the Administrative Agent (for the account of each applicable Lender) an amount equal to all losses, costs and expenses resulting from, arising out of, or imposed upon or incurred by such Lender by reason of, the liquidation or reemployment of funds acquired or committed to be acquired by such Lender to fund or maintain its portion of such LIBOR Loan. The determination of the amount of any such loss, cost or expense by any Lender, when evidenced by a certificate from that Lender giving a reasonably detailed calculation of the amount of such loss, cost or expense, shall be *prima facie* evidence of the same and, to the extent such calculation results in a negative number, such amount shall be paid by such Lender to the Borrower;
- (v) no repayment of any Bankers' Acceptance shall be made otherwise than on the maturity date of such Bankers' Acceptance except if Cash Collateral is provided to the Administrative Agent (for the benefit of the applicable Lenders) in an amount equal to the aggregate face (or, if applicable, principal) amount of the Bankers' Acceptances to be repaid prior to their respective maturity dates (together with such security agreements, officers certificates, legal opinions and other documents or agreements as the Administrative Agent may reasonably request in connection therewith); and
- (vi) on the applicable Optional Repayment Date the Borrower shall repay outstanding Accommodation in accordance with the notice given pursuant to Section 5.1(a)(i) together with all interest and other fees and other amounts accrued and unpaid under this Agreement, and any amounts payable under Section 9 of the Provisions, if any, with respect to any such Accommodation that is repaid.

For greater certainty, the foregoing provisions of this Section 5.1(a) do not apply to repayments of the Overdraft Tranche which may be made by the Borrower by way of deposit to the operating accounts established in connection therewith from time to time without notice or penalty.

For greater certainty, a repayment of outstanding Accommodation under either the Revolving Tranche or the Overdraft Tranche pursuant to this subsection shall not reduce any Revolving Commitment of any Revolving Lender, the Revolving Commitments or the Overdraft Commitment unless otherwise specified by the Borrower in the written notice provided by the Borrower to the Administrative Agent and a repayment of outstanding Accommodation under the Term Credit pursuant to this Section 5.1 shall be permanent and shall permanently reduce the Term Commitment whether or not so specified by the Borrower. So long as no Default or Event of Default has occurred and is continuing and unless otherwise so specified in such written notice, additional Accommodation may from time to time be obtained and repaid by the Borrower under the Revolving Tranche or the Overdraft Tranche, as the case may be, in accordance with and subject to the applicable provisions of this Agreement.

- (b) The Administrative Agent shall promptly notify the applicable Lenders of any proposed repayment of Accommodation pursuant to Section 5.1(a) and the amount and type of such Accommodation to be repaid to each such Lender. All repayment received by the Administrative Agent in respect of any Accommodation shall be distributed to the applicable Lenders on the basis of their respective Pro Rata Shares (other than breakage costs which shall be for the account of the Lender suffering the same) of the applicable Tranche or Credit.

Section 5.2 Scheduled Repayments under Credits and Termination

- (a) Operating Credit

Subject to the terms hereof and subject to any extensions of the Maturity Date in respect of the Operating Credit pursuant to Section 5.8, the Borrower shall permanently repay all Accommodation outstanding under the Operating Credit, together with all accrued interest, fees and other amounts then unpaid by it with respect to such Accommodation, on the Maturity Date for the Operating Credit and the Operating Credit and all of the Operating Credit Commitments of all the Operating Lenders shall be automatically terminated at such time.

- (b) Term Credit

Subject to the terms hereof, the Borrower shall permanently repay all Accommodation outstanding under the Term Credit, together with all accrued interest, fees and other amounts then unpaid by it with respect to such Accommodation, on the Maturity Date for the Term Credit and the Term Credit and all of the term Commitments of all the Term Lenders under the Term Credit shall be automatically terminated at such time.

Section 5.3 Mandatory Permanent Prepayments of the Term Credit

- (a) In addition to the scheduled principal repayments pursuant to Section 5.2, the Borrower shall:
- (i) within five (5) Business Days after receipt by any Loan Party of Net Cash Proceeds from: (A) any Asset Sale (other than a Sale of Fancy Yarn) not otherwise permitted pursuant to Section 9.2(d)(i) to (iii), inclusive, and unless the Borrower or any of its Subsidiaries reinvests such Net Cash Proceeds within 180 days of the receipt of such Net Cash Proceeds by a Loan Party (or has a bona fide written agreement to so reinvest within such 180 day period and does so reinvest within 180 days after the date of such agreement), in property or assets used in the Business of the Borrower or its Subsidiaries), or (B) any Recovery Event (subject to Section 9.1(k) and unless the Borrower or any of its Subsidiaries reinvests such Net Cash Proceeds within 180 days of the receipt of such Net Cash Proceeds by a Loan Party (or has a bona fide written agreement to so reinvest within such 180 day period and does so reinvest within 180 days after the date of such agreement) in replacement assets used in the Business of the Borrower or its Subsidiaries), or (C) the Sale of Fancy Yarn, deliver to the Administrative Agent a Mandatory Prepayment Certificate setting out a detailed calculation of such Net Cash Proceeds and, subject to Section 5.3(b), concurrent therewith permanently repay Accommodation then outstanding under the Term Credit by an amount equal to 100% of such Net Cash Proceeds;
 - (ii) within five (5) Business Days after receipt by any Loan Party of Net Cash Proceeds from any public or private Debt financing of or by any such Loan Party (other than Debt which is permitted pursuant to Section 9.2(b), the proceeds of which are used by the Borrower or any Subsidiary thereof in the Business for purposes permitted hereunder), deliver to the Administrative Agent a Mandatory Prepayment Certificate setting out a detailed calculation of such Net Cash Proceeds and concurrent therewith, permanently repay Accommodation then outstanding under the Term Credit by an amount equal to 100% of such Net Cash Proceeds; and
 - (iii) within thirty (30) days after the end of each month, deliver to the Administrative Agent a Mandatory Prepayment Certificate setting out a detailed calculation of the Monthly Distributable Amount for such month and concurrent therewith, permanently repay Accommodation then outstanding under the Term Credit by an amount equal to 100% of such Monthly Distributable Amount.
- (b) The obligation to permanently repay Accommodation outstanding under the Term Credit in Section 5.3(a) shall not apply to any Asset Sale, Recovery Event or Sale of Fancy Yarn at any time until the amount of the aggregate Net Cash Proceeds received since the Closing Date by the Loan Parties in respect of all Asset Sales,

Recovery Events and Sales of Fancy Yarn is greater than \$50,000 in aggregate. For greater certainty, Section 5.3(a)(i) shall apply to any portion of the Net Cash Proceeds of any particular Asset Sale, Recovery Event or Sale of Fancy Yarn received by the Loan Parties that is in excess of such \$50,000 aggregate limit.

- (c) The Administrative Agent shall forthwith distribute each Mandatory Prepayment Certificate to each of the Term Lenders once each such Mandatory Prepayment Certificate has been received by the Administrative Agent from the Borrower in accordance with this Agreement.
- (d) The amount of Accommodation outstanding under the Term Credit which is to be repaid pursuant to Section 5.3(a) shall be permanently repaid on the date a Mandatory Prepayment Certificate is delivered pursuant to Section 5.3(a).

Section 5.4 Application to Term Loans

With respect to each mandatory repayment required by Section 5.3, the Borrower may designate the types of Accommodation and the specific Borrowings that are to be prepaid, provided that LIBOR Loans and Bankers' Acceptances may be so designated only on the last date of an applicable LIBOR Period or on the maturity date of the applicable Bankers' Acceptance. In the absence of any designation by the Borrower, the Administrative Agent shall make such designation in its reasonable discretion with a view, but without obligation, to minimize breakage costs owing under Section 6.3.

Section 5.5 Currency Fluctuations

Notwithstanding any other provision of this Agreement, if, at any time and from time to time, as a result of currency fluctuations, as against the Canadian Dollar, the Accommodation of any Lender is five percent (5%) or more in excess of the individual Commitment of such Lender under any Tranche or Credit, such Lender may provide the Borrower and the Administrative Agent with a notice of its calculations indicating the amount in excess of the individual Commitment of such Lender under any such Tranche or Credit, as the case may be, and may require that the Borrower repay (for greater certainty, such repayment to be permanent in the case of the Term Credit) the amount of such Accommodation which is in excess of the individual Commitment of such Lender under any such Tranche or Credit, as the case may be, to the Administrative Agent for the account of such Lender on the fifth (5th) Business Day following the date of receipt of such notice from such Lender by the Borrower and the Administrative Agent. For greater certainty, no such repayment shall be required pursuant to this Section 5.5 unless such Accommodation exceeds such individual Commitment by five percent (5%) or more.

Section 5.6 Mandatory Repayment of Operating Credit

If, at any time, the aggregate Accommodation outstanding under the Operating Credit exceeds the Borrowing Base as at the most recently completed month end at such time, the Borrower shall, without notice or demand, immediately repay to the extent of such excess Accommodation then outstanding under firstly, the Revolving Tranche and, secondly, the Overdraft Tranche and immediately provide to the Administrative Agent Cash Collateral

(together with, as promptly as reasonably possible, such security agreements, officers' certificates, legal opinions, documents and agreements as the Administrative Agent may reasonably request) in an amount equal to the amount of any remaining excess Accommodation. The Borrower shall not be entitled to the return of any such Cash Collateral until the aggregate Accommodation outstanding under the Operating Credit is equal to or less than the Borrowing Base and then only if there exists no Default or Event of Default which has not been waived by the Required Lenders.

Section 5.7 No Re-Borrowing of Term Loans

For greater certainty, no amount of Accommodation under the Term Credit which has been repaid or prepaid (whether scheduled, voluntary or mandatory) may be re-borrowed by the Borrower.

Section 5.8 Extension of Maturity Date for Operating Credit

(a) Extension Request by Borrower

The Borrower may request an extension of the Maturity Date for the Operating Credit which exists as at the time of such request (the "**then applicable Maturity Date**") by submitting an Extension Request to the Administrative Agent no more than sixty (60) days but no less than thirty (30) days prior to the then applicable Maturity Date in respect of the Operating Credit. Promptly upon receipt of such Extension Request, the Administrative Agent shall notify each Operating Lender of such Extension Request and shall request each such Lender to approve such Extension Request within thirty (30) days of such notification (the "**Response Date**"). Each such Lender may, in its sole discretion, elect to approve or to refuse approval of such Extension Request and deliver a written notice to the Administrative Agent to such effect. Failure of a Lender to respond to an Extension Request on or before the Response Date shall be deemed to be a refusal to approve such Extension Request.

(b) Approval by All Lenders to Extension

If the written approvals by all Operating Lenders of an Extension Request are received by the Administrative Agent in accordance with Section 5.8(a) (each such approval being an "**Approval**"), then:

- (i)** on the then applicable Maturity Date in respect of the Operating Credit, the Maturity Date for the Operating Credit shall automatically be extended to the date that falls 364 days after the then applicable Maturity Date (or, if such day is not a Business Day, the immediately preceding Business Day) in respect of the Operating Credit; and
- (ii)** the Agent shall promptly notify the Borrower and each Lender in writing of such extension of the then applicable Maturity Date in respect of the Operating Credit.

(c) Lack of Approval by Lenders to Extension

If there are no more than two Operating Lenders under this Agreement at the date of such Extension Request and any of the Operating Lenders do not provide or are deemed not to provide an Approval, or if there are more than two Operating Lenders under this Agreement at the date of such Extension Request and the Required Facility Lenders in respect of the Operating Credit do not provide or are deemed not to provide an Approval, then:

- (i) as at the then applicable Maturity Date in respect of the Operating Credit, the Maturity Date in respect of the Operating Credit shall not be extended as requested with respect to any Lender;
 - (ii) the Agent shall promptly notify the Borrower and each Lender of the decision by the Operating Lenders not to approve the Extension Request; and
 - (iii) as at the then applicable Maturity Date in respect of the Operating Credit, the Borrower shall permanently repay to all Operating Lenders all Accommodation outstanding under the Operating Credit, together with all accrued interest, fees and other amounts then unpaid by the Borrower with respect to such Accommodation and the Operating Credit and all of the Operating Credit Commitments of all Operating Lenders under the Operating Credit shall be automatically terminated at such time.
- (d) Approval by Required Facility Lenders to Extension if more than Two Operating Lenders

If there are more than two Operating Lenders under this Agreement at the date of such Extension Request and the Required Facility Lenders in respect of the Operating Credit provide an Approval then:

- (i) on the then applicable Maturity Date in respect of the Operating Credit, the Maturity Date in respect of the Operating Credit shall be extended to the date that falls 364 days after the then applicable Maturity Date (or, if such date is not a Business Day, the immediately preceding Business Day) in respect of the Operating Credit of each of those Operating Lenders which provided its Approval (collectively, the **"Consenting Lenders"**) but shall not be extended in respect of the Operating Credit of each of those Operating Lenders which did not provide, or were deemed not to provide, their Approval (the **"Non-Consenting Lenders"**);
- (ii) the Agent shall promptly notify the Borrower and each Lender in writing of those Consenting Lenders which approved the Extension Request and those Non-Consenting Lenders which did not approve the Extension Request and of the extension of the then applicable Maturity Date in respect of the Operating Credit of the Consenting Lenders; and
- (iii) on the then applicable Maturity Date in respect of the Operating Credit, the Borrower shall permanently repay to the Non-Consenting Lenders all Accommodation of such Non-Consenting Lenders outstanding under the

Operating Credit, together with all accrued interest, fees and other amounts then unpaid by the Borrower with respect to such Accommodation and the Operating Credit and all of the Operating Credit Commitments of all Non-Consenting Lenders under the Operating Credit shall be automatically terminated at such time.

ARTICLE 6

PAYMENTS AND INDEMNITIES

Section 6.1 Method and Place of Payments

- (a) The Borrower undertakes that at all times that any Accommodation is outstanding or any other amount is owed by it under any Loan Document it shall maintain at the Administrative Agent's Payment Branch an account in Cdn. Dollars and an account in U.S. Dollars which the Administrative Agent shall be entitled to debit with such amounts as are from time to time required to be paid by the Borrower under the Loan Documents, as and when such amounts are due, and that each such account will contain sufficient funds for such purpose. Without in any way limiting the rights of the Administrative Agent pursuant to the foregoing, unless otherwise specifically agreed between the Borrower and the Administrative Agent, the Borrower hereby directs the Administrative Agent to debit the aforesaid accounts with such amounts as are from time to time required to be paid by the Borrower pursuant to Article 4 of this Agreement. The foregoing direction by the Borrower shall not prejudice the Borrower's right to dispute the quantum of such amounts debited by the Administrative Agent.
- (b) All payments by the Borrower under a Loan Document (except for payments under the Overdraft Tranche made prior to the Maturity Date for the Operating Credit, which shall be made directly to the Overdraft Lender, unless otherwise expressly provided in such Loan Document), shall be made to the Administrative Agent at the Administrative Agent's Payment Branch (for the account of the Lenders entitled to such payment) not later than 12:00 noon for value on the date when due, and shall be made in immediately available funds without set-off or counterclaim.
- (c) Unless the Borrower notifies the Administrative Agent not later than 12:00 (noon) of the Business Day prior to the date on which any payment is due that the Borrower does not intend to remit such payment, the Administrative Agent shall be entitled to assume that the Borrower has remitted or will remit such payment when so due and the Administrative Agent may (but shall not be obliged to), in reliance upon such assumption, make available to each applicable Lender on such payment date such Lender's Pro Rata Share under the applicable Tranche or Credit of such assumed payment. If the Borrower does not in fact remit such payment to the Administrative Agent as required by such Loan Document, each applicable Lender shall immediately repay to the Administrative Agent on demand the amount so made available to such Lender, together with interest on such amount at the interbank reference rate then in effect in Canada in respect of

each day from and including the date such amount was made available to such Lender to the date such amount is repaid in immediately available funds, and the Borrower shall immediately pay to the Administrative Agent on demand such amounts as are sufficient to compensate the Administrative Agent and the Lenders for all costs and expenses which the Administrative Agent or the Lenders may sustain. A certificate of the Administrative Agent as to any such amounts payable by the Borrower shall contain reasonable details of the calculation of such amounts and shall, absent manifest error, constitute *prima facie* evidence of such amounts.

- (d) If any amount which has been received by the Administrative Agent not later than 12:00 noon on any Business Day as provided above is not paid by the Administrative Agent to a Lender within one (1) Business Day, the Administrative Agent shall immediately pay to such Lender, on demand, interest on such amount at the interbank reference rate then in effect in Canada in respect of each day from and including the day such amount was required to be paid by the Administrative Agent to such Lender to the day such amount is so paid.

Section 6.2 Currency of Payment

Accommodation shall be repaid by the Borrower as required under this Agreement in the currency in which such Accommodation was obtained by the Borrower. Any payment on account of an amount payable under any Loan Document in a particular currency (the “**proper currency**”) made to or for the account of the Administrative Agent or a Lender in a currency other than the proper currency (the “**other currency**”), whether pursuant to a judgement or order of any court or tribunal or otherwise and whether arising from the conversion of any amount denominated in one currency into another currency for the purpose of making or filing a claim, obtaining an order or judgement, enforcing an order or judgement or otherwise, shall constitute a discharge of the Borrower’s obligation under such Loan Document only to the extent of the amount of the proper currency which the Administrative Agent or such Lender is able, in the normal course of its business within one (1) Business Day after receipt by it of such payment, to obtain on a conversion of the amount of the other currency so received. If the amount of the proper currency which the Administrative Agent or such Lender is so able to obtain is less than the amount of the proper currency originally due to it under such Loan Document, the Borrower shall indemnify and save the Administrative Agent or such Lender, as the case may be, harmless from and against any loss or damage arising as a result of such deficiency. This indemnity shall constitute an obligation separate and independent from any other obligation contained in any Loan Document and shall:

- (a) give rise to a separate and independent cause of action;
- (b) apply irrespective of any indulgence granted by the Administrative Agent or any Lender from time to time;
- (c) continue in full force and effect notwithstanding any judgement or order for a liquidated sum in respect of an amount due under any Loan Document or under any judgement or order; and

- (d) not merge in any order of foreclosure made in respect of any Security Document or other security given to or for the benefit of the Administrative Agent or the Lenders.

Section 6.3 Compensation

If: (a) any payment of principal of any LIBOR Loan or Bankers' Acceptance, or any conversion of any LIBOR Loan or Bankers' Acceptance, is made by the Borrower to or for the account of a Lender other than on the last day of the LIBOR Period or the maturity date of such Bankers' Acceptance as a result of acceleration of the maturity of the Credits pursuant to Section 10.2 or for any other reason, (b) any Borrowing of LIBOR Loans or Bankers' Acceptances, is the subject of a withdrawn Notice of Availment, (c) any repayment of principal of any LIBOR Loan or Bankers' Acceptance is not made as a result of a withdrawn notice of prepayment pursuant to Section 5.1 or Section 5.3, or (d) any amounts are payable as a result of an assignment required by Section 3.3 of the Provisions; the Borrower shall, after receipt of a written request by any Lender so affected thereby (which request shall set forth in reasonable detail the basis for requesting such amount), pay to the Administrative Agent (for distribution to such Lender) any amounts required to compensate such Lender for any additional losses, costs or expenses that such Lender may reasonably incur as a result of such events, including, without limitation, any loss, cost or expense (excluding loss of anticipated profits) actually incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Lender to fund or maintain such LIBOR Loan or Bankers' Acceptance.

ARTICLE 7 SECURITY

Section 7.1 Security Delivered on the Closing Date

Effective on the Closing Date, all Security Documents entered into under or pursuant to the Existing Credit Agreement and the security interests created thereby shall continue to secure the Outstanding Obligations under this Agreement and will not be released, cancelled or discharged.

As general and continuing security for the due payment of all Outstanding Obligations, the following Security Documents will be executed and delivered to the Administrative Agent on behalf of the Lenders in form and substance satisfactory to the Administrative Agent to secure all debts, liabilities and obligations of the Loan Parties to the Agent and the Lenders including, without limitation, the Outstanding Obligations as follows:

- (a) unconditional and unlimited guarantee and postponement and assignment of debts and claims issued by each direct holder (other than the Fund and the Current Securityholders) of Capital Stock in the Loan Parties in favour of the Administrative Agent and the Lenders;
- (b) unconditional and unlimited guarantee and postponement and assignment of debts and claims issued by Spinrite Corp. and each other Subsidiary of the Borrower in favour of the Administrative Agent and the Lenders;

- (c) subordination and postponement of debts and claims issued by each Current Securityholder in favour of the Administrative Agent and the Lenders, in respect of debts, liabilities and obligations owing to each such Current Securityholder by the Loan Parties in respect of the Subordinated Holding LP Units and in the form attached hereto as Schedule 7.1(c);
- (d) subordination, postponement and assignment of intercompany debts and claims issued by each Loan Party (except the Borrower), in favour of the Administrative Agent and the Lenders;
- (e) subordination and postponement of debts and claims issued by each creditor of any of the Loan Parties (other than trade creditors in the ordinary course of business, any creditor which is a Loan Party or any creditor which is a senior ranking creditor as consented to in writing by the Administrative Agent and the Lenders) in favour of the Administrative Agent and the Lenders;
- (f) securities pledge agreements from each of the Loan Parties (including all Subsidiaries of the Borrower to the extent that Capital Stock is owned by any such Subsidiaries), their successors and assigns in favour of the Administrative Agent and the Lenders in respect of all Capital Stock owned by them together with undated powers of attorney in respect thereof and the security certificates (or other acceptable evidence of ownership) in respect thereof all of which collectively provide the Administrative Agent and the Lenders a first ranking charge over all such Capital Stock (subject to those Permitted Liens which may be prior ranking);
- (g) general security agreement by each Loan Party providing for a first ranking security interest (subject to those Permitted Liens which may be prior ranking) in all of the present and future assets, property and undertaking of each such Loan Party;
- (h) demand debentures in the principal amount of no less than \$75,000,000 issued by the Borrower (and any other Loan Party which has or acquires an ownership interest in any real property) providing for a first ranking charge (subject to those Permitted Liens which may be prior ranking) against all of the present and future assets, property and undertaking of the Borrower and each such other Loan Party, as the case may be, in registrable form, containing, among other things:
 - (i) a first ranking (subject to those Permitted Liens which may be prior ranking) fixed and specific charge against all real property owned by the Borrower and each such other Loan Party, as the case may be, and such leasehold property of the Borrower and each such other Loan Party, as the case may be, as may be requested by the Agent or any of the Lenders from time to time, and
 - (ii) a first ranking security interest (subject to those Permitted Liens which may be prior ranking) in all present and after acquired personal property of

the Borrower and each such other Loan Party, as the case may be, including all patents, licences, trademarks, brand names and intellectual property

and a pledge agreement in respect of each such demand debenture under which each such demand debenture is pledged to and deposited with the Administrative Agent;

- (i) a charge/mortgage of land providing a first ranking charge (subject to those Permitted Liens which may be prior ranking) over the real properties which are municipally known as 1700 Bassett Street, Listowel, Ontario (the "**Distribution Centre**") and 320 Livingstone Ave. S., Listowel, Ontario (the "**Plant Facility**") and the warehouse and parking lot situated at the junction of Livingstone Ave. and Union, Listowel, Ontario (the "**Warehouse**")) and, to the extent required by the Administrative Agent, those other owned properties as listed in Schedule 7.1(i) and such other premises which are or become owned by any Loan Party (collectively, the "**Owned Property**");
- (j) an assignment of insurance made by each Loan Party of all present and future insurance and the proceeds thereof, listing the Administrative Agent as first loss payee (subject to third party lessors of equipment otherwise permitted by this Agreement which may have a Permitted Lien in respect of such equipment which is prior ranking), first mortgagee in respect of real property and an additional insured, together with the acknowledgement and evidencing certificate of insurance issued by or on behalf of the insurers;
- (k) mortgages of lease agreement in respect of the leased property which is municipally known as 220-230 Elma Street, Listowel, Ontario (the "**Leased Outlet**"), the leased property which is municipally known as 275 Elma Street West, Listowel, Ontario and the leased property which is municipally known as 596 Cedar Avenue, Wingham, Ontario and, to the extent required by the Administrative Agent, those other leased properties as listed in Schedule 7.1(i) which are material to the business of any Loan Party or become material to the business of any Loan Party subsequent to the Closing Date and any such other premises which are or become subject to a Lease at which any Loan Party conducts material business (as determined by the Administrative Agent, acting reasonably) now or in the future (collectively, the "**Leased Property**") and the written consents of all landlords to the granting in favour of the Administrative Agent and the Lenders of Liens in respect of such leased premises and of the assignments of such Leases;
- (l) bailee/warehouseman/distributor waiver in respect of inventory, and/or premises containing inventory, of the Borrower located in the Sonwil warehouse in Buffalo, New York (the "**US Property**") and, to the extent required by the Administrative Agent, those other premises as listed in Schedule 7.1(i) which are material to the business of any Loan Party or become material to the business of any Loan Party subsequent to the Closing Date (as determined by the

Administrative Agent, acting reasonably) now or in the future (all in form and substance as reasonably required by the Administrative Agent and the Lenders);

- (m) intellectual property security agreements issued by each Loan Party providing to the Administrative Agent and the Lenders a first ranking security interest (subject to those Permitted Liens which may be prior ranking) in Intellectual Property of each such Loan Party including, without limitation, all trademarks and trade names;
- (n) security pursuant to Section 427 of the Bank Act issued by the Borrower in favour of each of the Lenders;
- (o) a first ranking assignment (subject to those Permitted Liens which may be prior ranking) of: (i) the Acquisition Agreement issued by each Loan Party in favour of the Administrative Agent and the Lenders together with the consents of third parties to such Acquisition Agreement in form and substance satisfactory to the Administrative Agent, and (ii) the other Key Agreements (including without limitation, those listed in Schedule 1.1(www) and Leases to which any Loan Party is a party) existing as at the Closing Date or as may come into existence subsequent to the Closing Date issued by each Loan Party in favour of the Administrative Agent and the Lenders together with the consents of third parties to such Key Agreements in form and substance satisfactory to the Administrative Agent, to the extent reasonably required by the Administrative Agent, and to the extent that such consents are obtained by the Loan Parties using their commercially reasonable efforts;
- (p) title insurance policies or title opinions from counsel to the Loan Parties in respect of the Distribution Centre, the Plant Facility, the Warehouse and the Leased Property as well as all other material real property thereafter acquired by any of the Loan Parties; and
- (q) such other security agreements as the Administrative Agent may reasonably request from time to time to ensure that the Administrative Agent and the Lenders have a first ranking mortgage, charge and security interest (subject to those Permitted Liens which may be prior ranking) over all of the real and personal property, securities and undertaking of the Loan Parties (including, without limitation: (i) all Cash Collateral deposited with the Administrative Agent from time to time pursuant to the terms of this Agreement, and (ii) any subordination and postponement agreements as the Administrative Agent may reasonably request from time to time from any Persons to which the debts, liabilities or obligations of any Loan Party have been transferred by any Current Securityholder or subsequent transferee thereof) in every case to be accompanied by supporting resolutions, certificates and opinions in form and substance reasonably satisfactory to the Administrative Agent.

Section 7.2 Satisfactory to Administrative Agent

The Security Documents will be in such form or forms, and will be registered in such jurisdictions, as the Administrative Agent and its legal counsel may from time to time reasonably require.

Section 7.3 General Provisions Relating to the Security Documents

Nothing in any Security Document now held or acquired in the future by or on behalf of the Administrative Agent or the Lenders, nor any act or omission of the Administrative Agent or any of the Lenders with respect to any such Security Document, will in any way prejudice or affect the rights, remedies or powers of the Administrative Agent or any of the Lenders with respect to any other Security Document at any time held by or on behalf of the Administrative Agent or the Lenders.

Section 7.4 Security Documents Charging Real Property

Notwithstanding anything to the contrary contained in any Loan Document, to the extent that the Liens created by the Security Documents charge real property or any interest therein, such Liens shall secure interest after the occurrence of an Event of Default at the same rates as those rates in effect immediately prior to such occurrence.

Section 7.5 Rate Protection Agreements and Other

The Security Documents shall secure all Rate Protection Obligations, liabilities and obligations in respect of corporate VISA and commercial card services and credit offered by the Lenders to the Borrower and all other Outstanding Obligations which are or may be owing to the Lenders on a rateable basis with all debts, liabilities and obligations arising pursuant to the Loan Documents and, for greater certainty and for the purposes of this Section 7.5, Lenders shall include those lenders who have at any time been Lenders hereunder.

Section 7.6 Registration

The Administrative Agent may, at the expense of the Borrower, register, file or record the Security Documents or notices in respect of the Security Documents in all offices where such registration, filing or recording is, in the reasonable opinion of the Administrative Agent or its counsel, necessary or of advantage to the creation, perfection and preservation of the security interests arising pursuant to the Security Documents. The Administrative Agent may, at the Borrower's expense, renew such registrations, filings and recordings from time to time as and when required to keep them in full force and effect. Each Loan Party acknowledges that the forms of Security Documents have been prepared based upon the laws of the jurisdiction as noted therein (or, failing any such notation, the laws of the Province of Ontario) in effect at the date of execution of the Security Documents and that such laws may change, and that the laws of other jurisdictions may require the execution and delivery of different forms of security instruments in order to grant to the Administrative Agent and the Lenders the rights intended to be granted by the applicable Security Document. Each Loan Party will, and will cause each other Loan Party, on request from the Administrative Agent from time to time, to execute and

deliver to the Administrative Agent such additional security instruments and will amend or supplement any Security Documents theretofore provided to the Administrative Agent:

- (a) to reflect any changes in such laws, whether arising as a result of statutory amendments, court decisions or otherwise;
- (b) to facilitate the registration of appropriate forms of Security Documents in all appropriate jurisdictions; or
- (c) if any entity having delivered security amalgamates with any other person or enters into any corporate reorganization;

in each case in order to confer upon the Administrative Agent and the Lenders such Liens with such priority, as are intended to be created by such Security Documents.

The Borrower will pay or indemnify the Administrative Agent and each Lender against any and all registration fees and similar taxes or charges which may be payable or determined to be payable in connection with the execution, delivery, performance, registration or enforcement of any Loan Document or any of the transactions contemplated by any Loan Document.

Notwithstanding any other provision of this Agreement or any other Loan Document, the Borrower and the Guarantors are and shall remain responsible for maintaining the Security Documents and the Collateral and perfection of same.

ARTICLE 8

REPRESENTATIONS AND WARRANTIES

Section 8.1 Delivery of Representations and Warranties

Each Loan Party hereby jointly and severally represents and warrants to the Administrative Agent and each of the Lenders as follows:

- (a) **Status and Power.** Each of the Credit Parties has been duly organized and is validly subsisting under the laws of its jurisdiction of organization and each of the Credit Parties is duly qualified to carry on its business in every other jurisdiction in which the nature of its business requires qualification (except where a failure to so qualify would not be material to such Credit Party but, for greater certainty, to include, without limitation as follows: (a) the Fund is duly organized as an open-ended unincorporated trust and is validly subsisting and in good standing under the laws of Ontario, (b) the Trust is duly organized as an open-ended unincorporated trust and is validly subsisting and in good standing under the laws of Ontario, (c) GP Inc. is a corporation duly incorporated, organized and validly subsisting and in good standing under the laws of Nova Scotia, (d) Holding is duly organized as a limited partnership (the limited partners of which, as at the Closing Date, are the Trust and the Current Securityholders and the general partner of which, as at the Closing Date, is GP Inc.) and is validly subsisting and in good standing under the laws of Manitoba, and (e) the Borrower is duly

organized as a limited partnership (the only limited partner of which, as at the Closing Date, is Holding and the general partner of which, as at the Closing Date, is GP Inc.) and is validly subsisting and in good standing under the laws of Manitoba. Each of the Credit Parties has obtained all material approvals, permits and licenses, which are all in good standing in all material respects, and unrevoked on the date of this Agreement, necessary for the operations being conducted by each such Credit Party on each such Credit Party's property, and, to the best of the knowledge of each Loan Party (after due inquiry), there are no existing circumstances which could reasonably be expected to give rise to the revocation of any such material approvals, permits or licenses.

- (b) **Authorization of Documents.** Each of the Loan Parties has the power and authority to enter into and perform its obligations under the Loan Documents to which it is a party and all other instruments and agreements delivered pursuant to any of the Loan Documents and to own its property and carry on its business as currently conducted.
- (c) **Enforceability of Documents.** The execution, delivery and performance of each Loan Document by each Loan Party that is a party thereto and every other instrument or agreement delivered pursuant to each such Loan Document by each such Loan Party has been duly authorized by all requisite action by each such Loan Party and each such document has been duly executed and delivered by, and constitutes a valid and binding obligation of, each such Loan Party enforceable in accordance with its terms.
- (d) **Location of Property.** The Credit Parties do not employ any employees, or own any assets outside Canada or the State of New York. The tangible property and assets of each of the Credit Parties are located in Ontario and in no other jurisdiction other than inventory of the Borrower and its Subsidiaries with an aggregate value not exceeding \$500,000 which is located in the State of New York.
- (e) **Judgments.** None of the Credit Parties is subject to any judgment, order, writ, injunction, decree, award, or to any restriction, rule or regulation (other than customary or ordinary course restrictions, rules and regulations consistent or similar with those imposed on other Persons engaged in similar businesses) or Applicable Law which has, or could reasonably be expected to have, a Material Adverse Effect.
- (f) **Outstanding Defaults.** Except to the extent specified in Schedule 8.1(f), none of the Credit Parties is in default in any material respect under any guarantee, bond, debenture, note or other instrument evidencing any indebtedness or under the terms of any instrument pursuant to which any of the foregoing has been issued or made and delivered in the aggregate for all Credit Parties in excess of \$1,000,000 and no default or event of default thereunder has occurred and is continuing. To the best of the knowledge of each Loan Party (after due inquiry), there exists no

state of facts which after notice or lapse of time or both or otherwise would constitute such a default or "event of default".

- (g) **Litigation.** Except to the extent specified in Schedule 8.1(g), there are no actions, suits or proceedings pending or, to the best of the knowledge the Loan Parties (after due inquiry), threatened against or affecting any of the Credit Parties at law or in equity or before or by any court or Governmental Authority or before any arbitrator of any kind for amounts in excess of \$1,000,000 individually or in the aggregate or that could reasonably be expected to have a Material Adverse Effect.

- (h) **Financial Statements.** The Borrower has furnished to the Administrative Agent:

- (i) Fiscal Year End: the audited consolidated annual balance sheet and related statements of profit and loss, retained earnings and deficit and changes in cash flow for the Borrower (which have been audited by the auditors of the Borrower being, as at the Closing Date, Deloitte & Touche LLP who have delivered an unqualified opinion with respect thereto) for the 327 day period ended December 31, 2005 and the unaudited unconsolidated annual balance sheet and related statements of profit and loss, retained earnings and deficit and changes in cash flow for the Borrower for the 26 week period ended July 1, 2006 (collectively, the "**Spinrite Statements**") and the Spinrite Statements have been prepared in accordance with GAAP, except as stated in the Spinrite Statements or in the notes to the Spinrite Statements; the balance sheet contained in the Spinrite Statements presents fairly, in all material respects, the financial position of the Borrower as at the date of such balance sheet; and the statements of profit and loss, retained earnings and deficit and changes in cash flow contained in the Spinrite Statements present fairly, in all material respects, the sales, earnings and results of the operations of the Borrower for the periods indicated. None of the Credit Parties have any Contingent Obligations or liabilities for taxes, or any long-term leases or unusual forward or long-term commitments, including, without limitation, Rate Protection Agreements or other obligations in respect of derivatives, which are not reflected in the Spinrite Statements and which are of the type or amount that are required to be reflected in the Spinrite Statements or the notes thereto in accordance with GAAP or which have not been otherwise disclosed to the Administrative Agent in writing (other than an interest rate swap transaction executed between The Bank of Nova Scotia and the Borrower on December 3, 2004 for a term not exceeding three years and two months and in a notional principal amount as at the Closing Date of \$40,791,000);
- (ii) Fiscal Quarter End: the unaudited, auditor-reviewed internally-prepared quarterly balance sheet and related statements of profit and loss, retained earnings and deficit and changes in cash flow for the Borrower (as reviewed by Deloitte & Touche LLP), on a consolidated and an unconsolidated basis, for the Fiscal Quarter of the Borrower ended on or

about July 1, 2006 (collectively, the “**Quarterly Spinrite Statements**”); the Quarterly Spinrite Statements have been prepared in accordance with GAAP, except as stated in the Quarterly Spinrite Statements or in the notes, if any, to the Quarterly Spinrite Statements; the balance sheet contained in the Quarterly Spinrite Statements presents fairly, in all material respects, the financial position of the Borrower as at the date of such balance sheet; and the statements of profit and loss, retained earnings and deficit and changes in cash flow contained in the Quarterly Spinrite Statements present fairly, in all material respects, the sales, earnings and results of the operations of the Borrower for the periods indicated. None of the Credit Parties have any Contingent Obligations and liabilities for taxes, or any long-term leases or unusual forward or long-term commitments, including, without limitation, Rate Protection Agreements or other obligations in respect of derivatives, which are not reflected in the Quarterly Spinrite Statements and which are of the type or amount that are required to be reflected in the Spinrite Statements or the notes thereto in accordance with GAAP or have not been otherwise disclosed to the Administrative Agent in writing; and

- (iii) **Other Financial Information:** such other financial information as required pursuant to the Arrangements Letter and the attachments thereto.
- (i) **Financial Condition.** Since the date of the annual audited financial statements of the Borrower most recently delivered to the Administrative Agent, there has been no change in the business, condition (financial or otherwise), operations, properties or prospects of the Spinrite Group which would have a Material Adverse Effect except as disclosed in Schedule 8.1(i) attached hereto.
- (j) **Conduct of Business.** There is no fact known to any of the Loan Parties or which any of the Loan Parties reasonably expects to occur, which has not been disclosed to the Administrative Agent in writing which so far as the Loan Parties can now reasonably foresee, will have a Material Adverse Effect.
- (k) **Compliance with Other Instruments.** Neither the execution nor delivery of the Loan Documents, the Key Acquisition Documents or any agreements or instruments delivered pursuant to the Loan Documents, the consummation of the transactions contemplated in the Loan Documents and the Key Acquisition Documents, nor compliance with the terms, conditions and provisions of the Loan Documents and the Key Acquisition Documents conflicts with or results in any breach of, or constitutes a default under, any of the provisions of the constituting documents, articles or by-laws of any Credit Party or any material agreement, instrument, court order or arbitration award to which any Credit Party is a party or by which any Credit Party or any of its property and assets are bound, or results or will result in the creation or imposition of any Lien upon any Credit Party's properties or assets in contravention, in any material respect, of any Applicable Law relating to any Credit Party.

- (l) **Consent Obtained.** Each of the Credit Parties has obtained, made or taken all material consents, approvals, authorizations, declarations, registrations, filings, notices and other actions whatsoever required (and, in the case of consents under agreements or contracts to which any Credit Party is a party or bound, which are in any way material to the transactions contemplated by the Loan Documents) in connection with the execution and delivery by such Credit Party of the Loan Documents and Key Acquisition Documents to which it is a party and all other agreements or instruments delivered pursuant to such Loan Documents and Key Acquisition Documents, and the consummation of the transactions contemplated by such Loan Documents and Key Acquisition Documents.
- (m) **Taxes.** Each of the Credit Parties has filed or caused to be filed all federal, provincial, state and other material tax returns which are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any amount the validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of such Credit Party); no tax Lien has been filed, and, to the knowledge of the Loan Parties (after due inquiry), no material claim is being asserted, with respect to any such tax, fee or other charge except as has been disclosed to the Administrative Agent in writing.
- (n) **No Default.** No event or omission has occurred and is continuing which constitutes a Default or an Event of Default.
- (o) **Compliance with Laws.** No Credit Party is in default, in any material respect, and, to the best knowledge of the Loan Parties (after due enquiry), no event or omission has occurred which, with the passage of time or the giving of notice or both, would constitute a default, in any material respect, pursuant to any order, writ, decree or demand of any court or Governmental Authority or a default, in any material respect, under any material licenses or permits held or required for any material portion of such Credit Party's business.
- (p) **Owned and Leased Real Property.** The Borrower is the sole legal and beneficial owner of: (i) the Owned Property and of no other real property, with good and marketable title to such Owned Property (subject only to Permitted Liens hereunder), and (ii) the Leases in respect of the Leased Property and the Leases in respect of such Leased Property which is material are in good standing in all material respects and in full force and effect.
- (q) **Corporate Structure.** The ownership of securities (including number and class of securities) of the Credit Parties is as set out in Schedule 8.1(q) (as such Schedule may be revised or adjusted from time to time in writing to the Administrative Agent by the Borrower in the event that such ownership changes in a manner as permitted under this Agreement) and Schedule 8.1(q) also contains a complete and accurate list of:

- (i) each such Credit Party's full and correct name (including any French and English forms of name);
 - (ii) the jurisdiction in which each such Credit Party's chief executive office is located;
 - (iii) all jurisdictions in which each of the Credit Parties has a material place of business or holds any material property or assets or employs any material number of employees; and
 - (iv) all of the Subsidiaries of the Credit Parties.
- (r) **Environmental.** Except as disclosed on Schedule 8.1(r), none of the Credit Parties is presently subject to any civil, criminal, regulatory proceeding or governmental or regulatory investigation with respect to any Environmental Laws or Applicable Laws relating to occupational health and safety and none of the Loan Parties is aware of any such proceedings or investigations which have been threatened which, in each case or collectively, could reasonably be expected to have a Material Adverse Effect. The Administrative Agent has been provided with a true and complete copy of the GaiaTech Limited Environmental Review report dated January 2004 and the GaiaTech Limited Phase II Groundwater Investigation report dated August 2004 (collectively, the "**GaiaTech Reports**") and there has been no material change in the environmental circumstances in respect of the Owned Real Property or Leased Property since August 11, 2004 which are known to any of the Loan Parties and which has not been disclosed in writing to the Administrative Agent. Each of the Credit Parties is in compliance with all Environmental Laws and Applicable Laws relating to occupational health and safety except where failure to so comply would not have a Material Adverse Effect.
- (s) **Real Property.** All real property owned or leased by a Loan Party may be used in all material respects by such Loan Party pursuant to Applicable Law for the present use and operation of the business conducted on such real property. All Leases to which any Loan Party is a party and all real property owned by any Loan Party as of the Closing Date in each case are as set forth in Schedule 7.1(i).
- (t) **Intellectual Property.** Each Loan Party owns, or is licensed to use, all Intellectual Property necessary for the conduct of its business as currently conducted and all material patented or registrable Intellectual Property owned or licensed by the Loan Parties is listed on Schedule 8.1(t) (as such Schedule may be revised or adjusted from time to time in writing to the Administrative Agent by the Borrower in the event that such matters change in a manner as permitted under this Agreement). No claim has been asserted or to the best of the knowledge of each Loan Party (after due enquiry) has been threatened or is pending by any Person against any Loan Party challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does any Loan Party know of any valid basis for any such claim, in each case

except for claims the adverse determination of which could not reasonably be expected to have a Material Adverse Effect. Coats Canada Inc. has agreed to continue to extend the license arrangements pertaining to the Patons trademark in favour of the Borrower in accordance with the terms set out in the Patons Agreement.

- (u) **Labour Matters.** There are no strikes or other labour disputes against any Credit Party pending or, to the knowledge of any Loan Party (after due inquiry), threatened which could reasonably be expected to have a Material Adverse Effect. Hours worked by and payments made to employees of each of the Credit Parties are in material compliance with Applicable Laws and each of the Credit Parties is in material compliance with all Applicable Laws relating to its employees (including, without limitation, workers' compensation and employment standards). Except as set out in Schedule 8.1(u) (as such Schedule may be revised or adjusted from time to time in writing to the Administrative Agent by the Borrower in the event that such matters change in a manner as permitted under this Agreement), none of the employees of any Credit Party are subject to any collective bargaining agreement.
- (v) **Pensions.** None of the Credit Parties operate any pension plans other than a discretionary contribution registered retirement savings plan established by the Borrower and all funds required to be withheld and remitted in respect thereof on behalf or in respect of employees of the Borrower have been withheld and remitted by the Borrower.
- (w) **Solvency.** Each Credit Party is solvent and will not become insolvent after giving effect to the transactions contemplated by this Agreement.
- (x) **Financial Year End.** The Fiscal Year end of each of the Credit Parties as at the Closing Date and thereafter is December 31.
- (y) **Guarantees.** No Loan Party has guaranteed the obligations of any Person for borrowed money save as permitted by this Agreement.
- (z) **Customer and Trade Relations.** There is not, as at the Closing Date, any actual or threatened termination or cancellation of, or any material adverse change in, the business relationship between any Credit Party and any material supplier to any Credit Party.
- (aa) **Completion of Fund Transaction.** The Fund Transaction has been completed in accordance with the terms of the Key Acquisition Documents.
- (bb) **Environmental Reports.** As at the Closing Date, the GaiaTech Reports represent the most recent environmental reporting in the possession or control of any Credit Party in respect of the Owned Property and the Leased Property.
- (cc) **Compliance with Financial Covenants.** The Borrower is in compliance with all financial covenants as set out in Section 9.3 hereto.

(dd) **Accuracy of Information.**

- (i) All factual information and data (taken as a whole) heretofore or contemporaneously furnished, by or on behalf of any of the Credit Parties in writing to the Administrative Agent and/or to any Lender on or before the Closing Date for purposes of or in connection with this Agreement or any transaction contemplated herein was true in all material respects on the date as of which such information or data is dated or certified.
- (ii) The projections, *pro forma* financial information and reports prepared by third parties contained in the materials referenced above are based upon good faith estimates and assumptions believed by management of the Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount.
- (iii) As of the date of this Agreement, the representations and warranties of the Borrower are true and correct in all material respects.

Section 8.2 Repetition of Representations and Warranties

For the purposes of the representations and warranties set out in this Article 8, Credit Parties shall include all Subsidiaries of the Borrower and the other Credit Parties either existing as at the Closing Date or established or acquired subsequent to the Closing Date. The representations and warranties set out in Section 8.1 will be repeated by the Borrower (and will be deemed to be repeated by each other Loan Party) as being true and correct in every material respect in each Notice of Availment (other than in respect of rollovers and conversions) and each Compliance Certificate delivered by the Borrower as if such representations and warranties had been made by the Borrower and each other Loan Party on and as of the date of each such Borrowing Base Certificate and Compliance Certificate.

**ARTICLE 9
COVENANTS**

Section 9.1 Affirmative Covenants

So long as this Agreement is in force, and except as otherwise permitted by the prior written consent of the Required Lenders (or such greater threshold as may be specifically provided for elsewhere in this Agreement), each Loan Party covenants and agrees that it will comply, and where applicable will cause every other Credit Party to comply, with each of the following covenants:

- (a) **Punctual Payment.** The Borrower agrees to punctually pay to the Administrative Agent and each Lender when due, all amounts owing by the Borrower to the Administrative Agent or such Lender, as the case may be, pursuant to or in respect of this Agreement and the other Loan Documents, whether for principal,

interest, fees or otherwise, on the dates and in the manner provided by this Agreement and the other Loan Documents, without set-off or deduction of any kind.

- (b) **Perform Covenants.** Each Loan Party agrees to diligently observe and perform, and cause each of the other Loan Parties to diligently observe and perform, all of their respective covenants, agreements and obligations, arising out of the Loan Documents to which each such Loan Party is a party.
- (c) **Maintain Existence.** Except as otherwise permitted pursuant to Section 9.2(f), each Loan Party agrees to do or cause to be done, and will cause each other Credit Party to do or cause to be done, all things reasonably necessary to maintain and preserve their respective existence and to permit or enable them to comply with all obligations under the Loan Documents to which each such Credit Party is a party.
- (d) **Conduct of Business.** Each Loan Party agrees to maintain and preserve, and cause each of the other Credit Parties to maintain and preserve, all of its and their tangible properties and assets necessary for the proper conduct of its Business in reasonable repair and functional working order (reasonable wear and tear excepted).
- (e) **Legal Requirements.** Each Loan Party agrees to comply on a timely basis, and cause each other Credit Party to comply on a timely basis, with all Applicable Laws except where failure to so comply would not have a Material Adverse Effect.
- (f) **Payment of Taxes.** Each Loan Party agrees to pay, and cause every other Credit Party to pay, or cause to be paid, all material Taxes, government fees and dues levied, assessed or imposed on any of them or all or any part of their property as and when the same become due and payable; provided that it may withhold or contest the payment of any such Taxes, fees or dues if acting in good faith, and adequate reserves have been maintained therefor in accordance with GAAP.
- (g) **Inspection of Property, Books and Records, Discussions.** Each Loan Party agrees to, and to cause every other Credit Party to:
 - (i) keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Applicable Laws shall be made of all dealings and transactions in relation to its business and activities; and
 - (ii) upon reasonable notice (which may be telephonic notice), at all reasonable times and as often as the Administrative Agent may reasonably request, permit any authorized representative designated by the Administrative Agent, together with any authorized representatives of any Lender desiring to accompany the Administrative Agent, to visit and inspect the properties and financial records of any Credit Party and to make extracts from such

financial records and permit any authorized representative designated by the Administrative Agent (together with any accompanying representatives of any Lender) to discuss the affairs, finances and condition of any Credit Party with the appropriate Responsible Officer and such other officers as such Credit Party shall deem appropriate and, during such time as there is a Default or an Event of Default which is continuing, with such Credit Party's independent public accountants.

- (h) **Future Security.** Each Loan Party agrees that it will cause any present or future Person that is or becomes: (i) a Subsidiary of a Loan Party to provide all Security Documents as required and as described in Article 7, and (ii) a securityholder of a Loan Party (other than the Fund) to provide all Security Documents as required to be provided by the Current Securityholders as described in Article 7; in each case to be accompanied by supporting resolutions, certificates and opinions in form and substance reasonably satisfactory to the Administrative Agent and to be provided forthwith upon any Person becoming a Subsidiary of a Credit Party or securityholder of a Loan Party, as the case may be.
- (i) **Reporting.** The Borrower agrees to provide to the Administrative Agent, on behalf of the Lenders, in form (including electronic form) reasonably satisfactory to the Administrative Agent and in sufficient numbers of copies for distribution to the Lenders:
 - (i) within one hundred and five (105) days after the end of each Fiscal Year of the Borrower:
 - (A) the annual audited consolidated and unaudited unconsolidated financial statements of the Borrower (including all notes to such financial statements) for such Fiscal Year certified to be in accordance with GAAP by a Responsible Officer of the Borrower together with a management discussion and analysis in respect thereof,
 - (B) the annual audited consolidated and unaudited unconsolidated financial statements of the Fund (including all notes to such financial statements) for such Fiscal Year certified to be in accordance with GAAP by a Responsible Officer of the Fund together with a management discussion and analysis in respect thereof,
 - (C) upon the request of the Administrative Agent, the annual unaudited consolidated and unconsolidated financial statements of each of the Loan Parties (excluding the Borrower) (including all notes, if any, to such financial statements) for such Fiscal Year certified to be in accordance with GAAP by a Responsible Officer of the applicable Loan Party,

- (D) the auditor's annual management letter in respect of each of the Borrower and the Fund, and
 - (E) a Compliance Certificate setting out the items and calculations described in Section 9.1(i)(iv) based on such financial statements;
- (ii) at least fifteen (15) days prior to the end of each Fiscal Year of each of the Borrower and the Fund, a detailed business plan for each of the Borrower and the Fund covering a period that includes the immediately following Fiscal Year (commencing with the Fiscal Year ended December 31, 2005) which business plan will include income statement, cash flow statement and balance sheet projections and assumptions, a detailed calculation of planned capital expenditures, a comparison to the business plan and actual results of the then current Fiscal Year of the Borrower and the Fund, and a management discussion and analysis of such detailed business plan for each of the Borrower and the Fund;
 - (iii) within forty-five (45) days following the end of each Fiscal Quarter of each of the Borrower and the Fund, the quarterly unaudited consolidated and unconsolidated financial statements of each of the Borrower and the Fund (including, to the extent they exist, all notes to such financial statements) for each such Fiscal Quarter, and the portion of the Fiscal Year through the end of each such Fiscal Quarter (in each case showing comparisons to both budgeted amounts for each such Fiscal Quarter and to the comparable Fiscal Quarter for the previous Fiscal Year and for the portion of the Fiscal Year through the end of such comparable Fiscal Quarter) subject to a review by PricewaterhouseCooper LLP (the extent and cost of such review as agreed to between the Administrative Agent and the Borrower, in good faith, prior to the commencement of such review) and certified to be true and in accordance with GAAP by a Responsible Officer of the Borrower and the Fund, as applicable, together with a management discussion and analysis in respect thereof, and
 - (iv) concurrent with delivery of the financial statements pursuant to Section 9.1(i)(iii) above and, in any event, within forty-five (45) days following the end of each Fiscal Quarter of the Borrower, a Compliance Certificate signed by a Responsible Officer of the Borrower, certifying, *inter alia*:
 - (A) that as of the end of such Fiscal Quarter, no Default or Event of Default had occurred and is continuing and confirming that the representations and warranties contained in this Agreement continue to be true and correct in every material respect, as if such representations and warranties had been made by the Borrower and each of the other Loan Parties on and as of the date of such Compliance Certificate (except where expressly stated in this Agreement to be given only as of a date other than the date of such

Compliance Certificate), in each case, except as specified in such Compliance Certificate

- (B) the Total Funded Debt to EBITDA Ratio as at the end of such Fiscal Quarter based on the Borrower's most recently completed Four Quarter Period together with supporting detail showing the calculation thereof,
 - (C) the Interest Coverage Ratio as at the end of such Fiscal Quarter based on the Borrower's most recently completed Four Quarter Period together with supporting detail showing the calculation thereof,
 - (D) the Current Ratio as at the end of such Fiscal Quarter together with supporting detail showing the calculation thereof,
 - (E) the Applicable Loan Spread, the Applicable Stamping Fee, the Applicable LC Fee Rates and the Applicable Standby Fee Rate based on the Total Funded Debt to EBITDA Ratio described in subparagraph (B) above, and
 - (F) a reasonably detailed description of the amount of the Net Cash Proceeds from any Asset Sale, Recovery Event, Sale of Fancy Yarn or issuance or incurrence of Debt during such Fiscal Quarter;
- (v) within twenty (20) days following the end of each month of each Fiscal Year of the Borrower:
- (A) a Borrowing Base Certificate at as the end of each such month in form and substance satisfactory to the Administrative Agent (to include, without limitation, information on inventory, accounts receivable and accounts payable, with the availability of the Operating Credit determined in accordance with this Agreement) signed by a Responsible Officer of the Borrower, certifying, *inter alia*, that as of the date of such Borrowing Base Certificate, no Default or Event of Default had occurred and is continuing,
 - (B) a listing of the Borrower's accounts receivable ranked in accordance with the aging of such accounts receivable as at the end of each such month,
 - (C) management prepared analysis of the Fancy Yarn inventory of the Loan Parties as at the end of each such month in form and substance satisfactory to the Administrative Agent (including, without limitation, any additions thereto, sales thereof, writeoffs or recaptures in respect thereof during each such month and the estimated cost and market value thereof as at the end of each such month),

- (D) management prepared monthly unaudited consolidated and unconsolidated financial statements of each of the Borrower and the Fund for each such month, and the portion of the Fiscal Year through the end of each such month (in each case showing comparisons to both budgeted amounts for each such month and to the comparable month for the previous Fiscal Year and for the portion of the Fiscal Year through the end of such comparable month) together with a management discussion and analysis in respect thereof, and
- (E) management prepared calculation of the Monthly Distributable Amount in respect of each such month signed by a Responsible Officer of the Borrower, certifying as to the truthfulness and completeness of each such calculation;
- (vi) on or before January 31, 2007 and at the end of each month thereafter, a written report of the Borrower in form satisfactory to the Administrative Agent detailing the progress made by the Credit Parties in completing the actions recommended by Deloitte & Touche LLP in its report to the Credit Parties dated August 23, 2006 entitled "Spinrite Income Fund – Recapitalization Options";
- (vii) copies of all information circulars, registration statements, management reports, prospectuses, material change reports and annual, quarterly, monthly or other regular reports which any of the Credit Parties furnish to any of their public securityholders or file with the Ontario Securities Commission, the Securities and Exchange Commission or any other securities' regulatory authority promptly upon the release or filing thereof; and
- (viii) all such other information with respect to the Credit Parties and/or their respective property and assets (including, without limitation, information relating to Receivables, accounts payable and inventory of the Borrower or compliance by any Credit Party with Applicable Laws) which may be requested from time to time by the Administrative Agent, acting reasonably, and which is available to the Credit Parties.
- (j) **Notice of Certain Events.** The Borrower shall promptly notify the Administrative Agent whenever the Borrower learns of:
 - (i) the occurrence of a Default or an Event of Default;
 - (ii) any event or circumstance that has had, or so far as the Borrower can reasonably foresee, is reasonably likely to have, a Material Adverse Effect; or
 - (iii) any suit, litigation, investigation or other proceeding which is commenced or threatened in writing against any of the Credit Parties which involves a

claim in excess of \$1,000,000 (or the Equivalent Amount in any other currency or currencies);

together with a detailed statement by a Responsible Officer of the Borrower of the steps being taken to cure, prevent or respond to, and the effect of, such event or circumstance, as the case may be.

(k) **Insurance.**

- (i) Each Loan Party agrees to, and to cause every other Loan Party to, maintain, in accordance with prudent business practice standards, general liability insurance (in a minimum amount which is not less than \$5,000,000) and insurance with respect to the Collateral (including, for greater certainty, the Fancy Yarn owned by the Loan Parties) (collectively, the “**Insurance**”) which is of an insurable nature and which is usually insured by companies of similar size operating generally similar properties and businesses (which Insurance shall include, without limitation, business interruption, “all risks” property damage, boiler and machinery and third party liability insurance). The Administrative Agent shall be named as a first mortgagee in accordance with the Insurance Bureau of Canada’s Standard Mortgage Clause with respect to all Owned Property, as first loss payee with respect to all other assets of the Loan Parties, and as an additional insured in all liability policies maintained by the Loan Parties. All liability policies maintained by the Loan Parties shall be underwritten by insurance companies acceptable to the Administrative Agent, acting reasonably. The Borrower shall deliver or cause to be delivered to the Administrative Agent certificates of insurance in respect of all Insurance, and thereafter shall provide to the Administrative Agent a certificate for each renewal of such Insurance and such other certified copies or certificates of such Insurance from time to time as may be reasonably required by the Administrative Agent.
- (ii) If any of the Loan Parties defaults in insuring its real or personal property and assets as are required under this Section 9.1(k) to be insured, the Administrative Agent may, after five (5) Business Days notice to the Borrower, at the option of the Administrative Agent, effect such Insurance and pay the premiums for such Insurance and the Borrower shall reimburse the Administrative Agent for any premiums so paid with interest thereon at the then applicable interest rate with respect to Prime Rate Loans.
- (iii) Unless an Event of Default has occurred and is continuing, all Net Cash Proceeds from Insurance relating to a Recovery Event shall be governed by the provisions of Section 5.3(a)(i). If an Event of Default has occurred and is continuing then, notwithstanding any other provision of this Agreement, the Administrative Agent alone shall receive all proceeds of Insurance regardless of amount and shall apply all of such proceeds of

Insurance toward the permanent repayment of any Term Loans then outstanding in accordance with the provisions of this Agreement.

- (iv) As soon as practicable following the happening of any loss or damage in respect of any Credit Party's real or personal property and assets subject to any Insurance, the Borrower shall, at its expense, furnish or cause to be furnished all necessary proof and do all necessary acts to enable the Person entitled to receipt of the proceeds of such insurance pursuant to this subsection to obtain payment thereof.
- (l) **Notice of Environmental Matters.** The Borrower agrees to, and to cause every other Credit Party to, notify the Administrative Agent promptly on the Borrower or any other Loan Party becoming aware of any civil, criminal or regulatory proceeding or investigation which involves a claim against it in excess of \$500,000 (or the Equivalent Amount in any other currency or currencies) with respect to any Environmental Laws or laws relating to occupational health and safety.
- (m) **Environmental Rectification.** The Borrower agrees to, and to cause every other Credit Party to address (as and to the extent required by Environmental Laws) any release of any Hazardous Materials from any of their properties or caused by any of them and comply with any and all orders issued by any Governmental Authority with respect to the Natural Environment.
- (n) **Environmental Compliance.** Each Loan Party agrees to, and to cause every other Credit Party to, comply with all Environmental Laws and Applicable Laws relating to occupational health and safety except where failure to so comply would not have a Material Adverse Effect.
- (o) **Accounts.** Each Loan Party agrees to, and to cause every other Credit Party to, maintain operating accounts with the Administrative Agent for so long as any portion of the Operating Credit remains available (except for operating accounts of any Subsidiary of any Credit Party located in the United States of America which operating accounts will be maintained with a financial institution which is acceptable to the Administrative Agent acting reasonably).
- (p) **Performance of Covenants by Administrative Agent.** The Administrative Agent will be entitled (but not obligated) at any time and from time to time to pay or satisfy any debt, liability or obligation of the Borrower pursuant to any Loan Document or any document contemplated by a Loan Document if the same has become due and has not been paid as required pursuant to the terms of such Loan Document or document contemplated by such Loan Document, and the Borrower will, at the request of the Administrative Agent, promptly reimburse the Administrative Agent for all amounts expended, advanced or incurred by the Administrative Agent to satisfy such debt, liability or obligation or to enforce the rights of the Administrative Agent or any Lender pursuant to any Loan Document including, without limitation, all court costs and reasonable lawyers' fees and

disbursements and all reasonable fees and disbursements of auditors, consultants, accountants, environmental auditors and investigators and other investigation expenses reasonably incurred by the Administrative Agent or any Lender in connection with any such matters.

- (q) **Leased Locations.** Each Loan Party agrees to, and to cause every other Credit Party to, fully pay its respective monetary obligations in a timely manner and otherwise perform its material obligations under all Leases and other agreements in respect of the Leased Property and other locations occupied or used by any Credit Party that is not owned by the Borrower or any other Credit Party and where any Collateral or other asset charged by any Security Document is located.
- (r) **Material Contracts.** Each Loan Party agrees to, and to cause every other Credit Party to, perform all obligations pursuant to all documents, contracts and agreements of each such Credit Party the failure of which to perform may result or has resulted in a Material Adverse Effect and pursuant to all Key Agreements.
- (s) **Fixed Rates for Debt.** The Borrower agrees to enter into interest rate hedging arrangements with the Lenders to provide that, commencing the Closing Date, and thereafter at all times, no less than 50% of the Accommodation under the Term Credit will be at fixed interest rates for the remaining term to the Maturity Date in respect of the Term Credit, which hedging arrangements can be cancelled at any time with the consent of the Lenders acting reasonably.
- (t) **Patons Agreement.** The Borrower agrees to maintain its exclusive right to use the trademarks set forth in the Patons Agreement by either renewing its exclusive right to use the trademarks in accordance with the terms and conditions of the Patons Agreement or purchasing all of the rights, title and interest in such trademarks (including goodwill) such that the Borrower continues its exclusive right to the use of the trademarks during such time as there is any Accommodation which has been provided by the Lenders or during which the Borrower has the right to request Accommodation from the Lenders under this Agreement.
- (u) **Capital Expenditures.** The Borrower agrees that, as at the Closing Date and thereafter, Capital Expenditures made by it and the other Loan Parties on a consolidated basis shall be only for maintaining, sustaining or replacing capital assets of the Borrower used in the Business as at the Closing Date.
- (v) **Monitor Review.** Within 60 days of the Closing Date, the Borrower agrees to deliver to the Administrative Agent (for distribution to each of the Lenders) true and complete copies of a monitor review prepared by PricewaterhouseCooper LLP (the extent and cost of such review as agreed to between the Administrative Agent and the Borrower, in good faith, prior to the commencement of such review) containing, among other things, a comprehensive review of the Fancy Yarn owned or held by the Loan Parties and the current status of the Fancy Yarn market.

- (w) **Financial Projections.** On or before December 15, 2006, the Borrower agrees to deliver to the Administrative Agent (for distribution to each of the Lenders) true and complete copies of financial projections (including without limitation an analysis of the Borrowing Base and financial covenant calculations) for the Borrower prepared by management on a monthly basis for the period commencing the Closing Date to and including December 31, 2007.
- (x) **Further Assurances.** Each Loan Party agrees to, and to cause every other Credit Party to, at its own expense and promptly at the reasonable request of the Administrative Agent, cure or cause to be cured all defects in the content, execution and delivery of any Loan Document to which it is a party or any other document arising from the Loan Documents. Each Loan Party further agrees to, and to cause every other Credit Party to, at its own expense and promptly at the reasonable request of the Administrative Agent: (i) execute and deliver to the Administrative Agent all such other and further documents, agreements and instruments necessary to satisfy the obligations of any of the Credit Parties under the Loan Documents to which it is a party or under any of the documents arising from the Loan Documents, (ii) effect any registrations or filings reasonably required by the Administrative Agent, and (iii) obtain any consents reasonably required by the Administrative Agent.
- (y) **Post Closing Undertakings.** The Borrower shall deliver to the Administrative Agent:
- (i) on or before the date which is sixty (60) days following the Closing Date:
 - (x) certified copies of the executed lease agreement in respect of the leased property which is municipally known as 275 Elma Street West, North Perth, Ontario (the "**Elma Leased Property**"), (y) executed mortgage of lease agreement (to and in favour of the Administrative Agent and the Lenders) and first ranking assignment of lease/license and fixture filing (subject to those Permitted Liens which may be prior ranking) together with a title insurance policy or title opinions from counsel to the Loan Parties all in respect of the Elma Leased Property certifying such first ranking security, and (z) the written consents of the landlord and any mortgagees of the landlord to the granting in favour of the Administrative Agent and the Lenders of Liens in respect of the Elma Leased Property and of the assignment of such Lease and fixture filing (all in form and substance satisfactory to the Administrative Agent); and
 - (ii) on or before the date which is thirty (30) days following the Closing Date:
 - (x) certified copies of the executed lease agreement in respect of the leased property which is municipally known as 596 Cedar Avenue, Wingham, Ontario (the "**Wingham Leased Property**"), (y) executed mortgage of lease agreement (to and in favour of the Administrative Agent and the Lenders) and first ranking assignment of lease/license and fixture filing (subject to those Permitted Liens which may be prior ranking) together with a title insurance policy or title opinions from counsel to the Loan

Parties all in respect of the Wingham Leased Property certifying such first ranking security, and (z) the written consents of the landlord and any mortgagees of the landlord to the granting in favour of the Administrative Agent and the Lenders of Liens in respect of the Wingham Leased Property and of the assignment of such Lease and fixture filing (all in form and substance satisfactory to the Administrative Agent).

Section 9.2 Negative Covenants

So long as this Agreement is in force, and except as otherwise permitted by the prior written consent of the Required Lenders (or such greater threshold as may be specifically provided for elsewhere in this Agreement), each Loan Party covenants and agrees that it will comply, and where applicable will cause every other Credit Party to comply, with each of the following covenants:

- (a) **Additional Liens.** Except for Liens created pursuant to the Security Documents and Permitted Liens, no Credit Party shall grant or issue any Lien, or permit any Lien to exist, with respect to any of their respective property, assets, rights or undertaking.
- (b) **Limitation on Indebtedness.** Except Permitted Debt, no Credit Party shall create, incur, assume or suffer to exist any Debt.
- (c) **Limitation on Transactions with Affiliates.** Except for any Permitted Affiliate Transactions and subject to the restrictions set out in Section 9.2(h), no Credit Party shall enter into any transaction, contract or agreement of any kind with any other Credit Party or Current Securityholder or any Affiliate of any Credit Party or Current Securityholder or any member of the immediate family of any such Affiliate or Current Securityholder or any officer or director of any such Affiliate or Credit Party or Current Securityholder or any member of the immediate family of any such officer or director (each being an “**Affiliated Party**”).
- (d) **Limitation on Asset Disposals.** No Loan Party shall effect an Asset Sale to any Person, except:
 - (i) Asset Sales for fair value in any Fiscal Year of the Borrower for which the aggregate gross proceeds (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other obligations and valued at fair market value in the case of other non-cash proceeds) do not exceed \$250,000 in aggregate for all Loan Parties in such Fiscal Year, provided that no Default or Event of Default has occurred and is continuing at the time of any such Asset Sale;
 - (ii) the sale of inventory in the ordinary course of such Loan Party’s business; and
 - (iii) the sale of property or assets in the ordinary course of such Loan Party’s business that are worn out, obsolete or no longer useful for the carrying

out of such Loan Party's business where the proceeds from sale of all such property and assets which have been sold and are being sold do not exceed \$250,000 in aggregate or are promptly used to buy replacement assets of like kind;

unless the Borrower either:

- (iv) (A) promptly applies all Net Cash Proceeds in accordance with the requirements of Section 5.3 and (B) assigns, mortgages or pledges all non-cash proceeds in favour of the Administrative Agent and makes all payments thereunder or proceeds therefrom to the Administrative Agent in the same manner and upon the same terms and conditions as set out in the immediately preceding sub-paragraph (A) for Net Cash Proceeds.
- (e) **No Acquisitions.** No Credit Party will make any Acquisition unless such Acquisition constitutes an acquisition of all of the Capital Stock of 3896488 Nova Scotia Company and/or 3096489 Nova Scotia Company and/or 3091785 Nova Scotia Company in accordance with the terms of the Liquidity Agreement and provided payment for any such acquisition is made in compliance with Section 9.2(h)(vi).
- (f) **No Merger, Amalgamation or Consolidation.** No Credit Party shall liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution), or dispose of all or substantially all of its property or business or enter into any merger, consolidation or amalgamation other than a merger, consolidation or amalgamation where:
 - (i) the corporation that continues as a result of such merger, consolidation or amalgamation retains the obligations of such Credit Party under the Loan Documents;
 - (ii) such transaction is solely between Loan Parties which have provided all of the Security Documents to the Administrative Agent as required pursuant to Article 7 hereof;
 - (iii) ten (10) days prior written notice of such transaction shall have been delivered to the Administrative Agent; and
 - (iv) no Default or Event of Default shall have occurred and be continuing or will occur as a result of such merger, consolidation or amalgamation.
- (g) **Limitation on Investments, Loans and Advances.** No Credit Party shall make any advance, loan, extension of credit (by way of Debt or otherwise, except for the extension of customary trade terms to suppliers in the normal course of business) or capital contribution to, or purchase or otherwise acquire any Capital Stock, bonds, notes, debentures or other securities of or make any other investment (collectively, an "**Investment**") in, any Person, except:

- (i) investments in Cash Equivalents,
 - (ii) Investments by one Credit Party in or to a Loan Party provided the making of any such Investment otherwise complies in all respects with this Agreement, and
 - (iii) loans and advances by any Credit Party to officers, directors and employees of any Credit Party to the extent any such loan or advance constitutes a Permitted Affiliate Transaction.
- (h) **Restricted Payments.** No Loan Party shall, directly or indirectly, declare or make any Distribution or any other payments (a “**Restricted Payment**”) to any Affiliated Party or any holder of Capital Stock of the Fund (including, without limitation, by way of dividends, purchase, redemption, retirement or return of capital, principal or interest payments, withdrawal, bonus, advance or otherwise), except that:
- (i) Loan Parties may make payments of salary and bonuses to employees or officers of any such Credit Party in their capacity as employee or officer of any such Credit Party in the ordinary course of business or as otherwise approved by the trustees or compensation committee of such Loan Party and Loan Parties may enter into business arrangements (including Acquisitions permitted in accordance with this Agreement) on arms’ length terms with those holders of Capital Stock of the Fund which are not an Affiliated Party and are not otherwise prohibited from entering into such business arrangements by this Agreement;
 - (ii) a Loan Party may make customary directors’ and trustees’ fees, customary directors’ and executive officers’ indemnifications and similar arrangements for directors, trustees and officers of such Loan Party entered into in the ordinary course of business provided such fees, indemnifications and arrangements are reasonable and consistent with market practice;
 - (iii) a Loan Party may make loans and advances to officers, directors and employees of such Loan Party for travel, moving and other relocation expenses, in each case made in the ordinary course of business, provided the aggregate outstanding amount of such loans and advances does not exceed \$100,000 at any time in the aggregate for all of the Loan Parties during the term of this Agreement;
 - (iv) a Loan Party may make loans and advances to officers, directors and employees of such Loan Party for the purchase of the Capital Stock of the Fund provided the aggregate outstanding amount of all such loans and advances does not exceed \$1,000,000 at any time in the aggregate for all of the Loan Parties during the term of this Agreement;

- (v) a Loan Party may make payments to another Loan Party provided no payment shall be made by the Borrower or any of the Subsidiaries of the Borrower to another Loan Party which is not a Borrower or a Subsidiary of the Borrower (unless such payment is made to satisfy all or any portion of the Outstanding Obligations hereunder) in the event that there is a Default or an Event of Default which has occurred and is continuing (or would otherwise occur as a result of any such payment) at the relevant time; and
- (vi) so long as no Default or Event of Default has occurred and is continuing at the relevant time (or would occur as a result of any such payment to any holder of Subordinated Holding LP Units) and provided any such payment is made in compliance with all Key Agreements and Applicable Laws: (x) the holders of the Subordinated Holding LP Units may from time to time redeem, retract or exchange their Subordinated Holding LP Units or any other Investments held by them in Holding, and (y) Holding may acquire, or may cause a wholly-owned Subsidiary of the Trust (other than the Borrower or any Subsidiaries of the Borrower) to acquire, all but not less than all of the Capital Stock of 3096488 Nova Scotia Company and/or 3096489 Nova Scotia Company and/or 3091785 Nova Scotia Company (each a “**Holdco**”) together with all of the Debt owing by the applicable Holdco to its shareholders in accordance with the terms of the Liquidity Agreement and provided the applicable Holdco has no liabilities outstanding at such time (other than such Debt so acquired) and has no assets at such time other than its holdings in the Subordinated Holding LP Units; in each case, provided such payment in respect of such redemption, retraction, exchange or acquisition is made in the form of Fund Units or in the form of cash received directly or indirectly from the Fund through the issuance to the public (subsequent to the Closing Date and for the specific purpose of funding such redemption, retraction or acquisition) by the Fund of additional Fund Units.

For greater certainty, unless any Restricted Payment is otherwise expressly permitted by Section 9.2(h)(i) – (vi) above, no Loan Party, directly or indirectly, shall make (or give any notice in respect of): (x) any voluntary or optional payment or prepayment of principal or interest on any Debt issued pursuant to the Trust Note Indenture or the Trust Notes or in respect of an acquisition of the Capital Stock of any Holdco or the Debt of any Holdco owing to any of its shareholders; (y) any redemption (including without limitation pursuant to any change of control provision), retirement, defeasance or other acquisition for value of any of the Subordinated Holding LP Units or any principal on any Debt issued pursuant to the Trust Note Indenture or the Trust Notes or in respect of any Capital Stock of any Holdco or the Debt of any Holdco owing to any of its shareholders; or (z) any deposit or otherwise set aside funds for any of the foregoing purposes.

- (i) **Limitation on Lines of Business.** No Credit Party shall materially change the nature of the Business of such Credit Party as at the Closing Date or enter into any business which is substantially different from the Business.
- (j) **Rate Protection Agreement.** No Credit Party shall incur any Rate Protection Obligations or enter into a Rate Protection Agreement with any Person other than a Lender and no Credit Party will incur any Rate Protections Obligations or enter into any Rate Protection Agreement for speculative purposes.
- (k) **No Change of Name.** No Credit Party shall change its name without providing ten (10) days prior written notice thereof to the Administrative Agent.
- (l) **Chief Executive Office.** No Loan Party shall move its chief executive office outside of the jurisdiction in which it was located as at the Closing Date without providing ten (10) days prior written notice thereof to the Administrative Agent and such Credit Party having taken such steps as may be reasonably required by the Administrative Agent to ensure that the Liens created by the Loan Documents to which such Credit Party is a party continue to constitute valid, enforceable and perfected Liens.
- (m) **Bank Accounts.** No Credit Party shall maintain any lock boxes, deposits, operating or other bank accounts unless such lock boxes, deposits and operating and other bank accounts are maintained with The Bank of Nova Scotia and/or any Affiliate of The Bank of Nova Scotia and/or the Administrative Agent or other financial institution for which The Bank of Nova Scotia has provided its prior written consent (acting reasonably) and on the understanding that certain locations of a Credit Party in the United States of America will have little option other than to maintain lock boxes, deposits, operating accounts and other bank accounts with other financial institutions.
- (n) **Modifications to Key Agreements.** No Credit Party shall cancel or terminate any Key Agreement or amend or otherwise modify any Key Agreement, or waive any default or breach under any Key Agreement, or take any other action in connection with any Key Agreement (each being a “**Change**”) other than: (i) in respect of a Key Agreement which is not a Key Acquisition Document, any such Change that would not in any such case have a Material Adverse Effect or be prejudicial to Administrative Agent or the Lenders under the Loan Documents, (ii) in respect of a Key Acquisition Document which is not the Acquisition Agreement, the Liquidity Agreement, the Trust Note Indenture (only to the extent relating to the subordination and postponement provisions contained therein or in the form of the Trust Notes) or the Securityholders Agreement, any such Change that would not in any such case have a Material Adverse Effect or be prejudicial to Administrative Agent or the Lenders under the Loan Documents and provided the Administrative Agent has received no less than thirty (30) days’ period written notice of such Change, and (iii) in respect of the Acquisition Agreement, the Liquidity Agreement, the Trust Note Indenture (to the extent relating to the subordination and/or postponement provisions contained therein or in the form of

the Trust Notes) and the Securityholders Agreement, with the prior written consent of the Lenders.

Section 9.3 Financial Covenants

So long as this Agreement is in force, the Borrower will ensure that:

- (a) its Total Funded Debt to EBITDA Ratio is, at all times and calculated as at the end of each of its Fiscal Quarters (based on Total Funded Debt as at the end of each such Fiscal Quarter and EBITDA for its most recently completed Four Quarter Period), not greater than: (i) to and including September 30, 2006, 5.00:1.0, (ii) from October 1, 2006 to and including December 31, 2006, 5.25:1.0, (iii) from January 1, 2007 to and including March 31, 2007, 5.00:1.0, (iv) from April 1, 2007 to and including June 30, 2007, 3.75:1.0, (v) from July 1, 2007 to and including September 30, 2007, 3.25:1.0, and (vi) at all times thereafter, 2.75:1.0;
- (b) its Interest Coverage Ratio is, at all times and calculated as at the end of each of its Fiscal Quarters (based on its most recently completed Four Quarter Period), greater than or equal to 3.0:1.0;
- (c) its Current Ratio is, at all times and calculated as at the end of each of its Fiscal Quarters, greater than or equal to 1.2:1.0; and
- (d) it does not incur Capital Expenditures during any of its Fiscal Years (excluding the amount of Capital Expenditures incurred during any such applicable Fiscal Year which have been funded by an expenditure from the Capex Reserve) other than in accordance with the permitted amounts set forth below:

During the Period	Amount
The Borrower's Fiscal Year ending December 31, 2005	no less than \$300,000 and no greater than \$2,000,000
The Borrower's Fiscal Year ending December 31, 2006	no less than \$300,000 and no greater than \$850,000
The Borrower's Fiscal Year ending December 31, 2007	no less than \$300,000 and no greater than \$850,000

ARTICLE 10 EVENTS OF DEFAULT

Section 10.1 Events of Default

Any one or more of the following events will constitute an Event of Default hereunder:

- (a) **Default in Principal.** If the Borrower fails to repay any indebtedness on account of principal when due under this Agreement.
- (b) **Default in Interest, etc.** If the Borrower fails to pay any interest, fees, expenses, commissions or other amounts payable under this Agreement or any other Loan Document (other than principal referred to in Section 10.1(a)) within three (3) Business Days of the due date therefor.
- (c) **Certificates.** If the Borrower fails to deliver a Compliance Certificate or Borrowing Base Certificate pursuant to this Agreement within five (5) Business Days of the date such Compliance Certificate or Borrowing Base Certificate was due pursuant to this Agreement.
- (d) **Non-Curable Defaults.** If any Loan Party defaults in the performance or observance of any of Section 9.1(c), Section 9.1(h), Section 9.2 or Section 9.3 or any other term, condition or covenant of this Agreement which is incapable of being cured.
- (e) **Curable Defaults.** If any Loan Party defaults in the performance or observance of any term, condition or covenant contained in this Agreement or any other Loan Document (other than any term, condition or covenant that is the subject of any other subsection of this Section 10.1) and, if any such term, condition or covenant is capable of being cured, such default continues for a period of thirty (30) days or more after any Loan Party was aware of such default or written notice of such default has been delivered by the Administrative Agent to the Borrower.
- (f) **Representations and Warranties.** If any representation or warranty made in any Loan Document or any certificate or other document delivered to the Administrative Agent or any of the Lenders pursuant to this Agreement is untrue, misleading or incorrect in any material respect.
- (g) **Other Debt.** If any Credit Party shall:
 - (i) default in making any payment of any principal of any Debt (including, without limitation, any Contingent Obligation in respect of Debt, but excluding any payment of any Debt arising under this Agreement or any other Loan Document) on the scheduled or original due date with respect thereto and such default continues for the applicable grace period, if any, provided in the instrument or agreement under which such Debt was created; or
 - (ii) default in making any payment of any interest on any such Debt beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created; or
 - (iii) default in the observance or performance of any other agreement or condition relating to any such Debt or contained in any instrument or agreement evidencing, securing or relating thereto beyond the period of

grace, if any, provided in the instrument or agreement under which such Debt was created, or any other event shall occur or condition exist beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created, the effect of which default or other event or condition is to cause, or to permit the holder or beneficiary of such Debt (or a trustee or agent on behalf of such holder or beneficiary) to cause, with the giving of notice if required, such Debt to become due prior to its stated maturity (or, in the case of any such Debt constituting a Contingent Obligation, to become payable);

provided, that a default, event or condition described in clause (i), (ii) or (iii) of this Section 10.1(g) shall not at any time constitute an Event of Default unless, at such time, one or more defaults, events or conditions of the type described in clauses (i), (ii) or (iii) of this Section 10.1(g) shall have occurred and be continuing with respect to Debt, the outstanding principal amount of which exceeds, in the aggregate for all such Debt for all of the Credit Parties, \$1,500,000.

- (h) **Loan Documents.** If this Agreement or any other Loan Document or any part thereof shall, at any time after its respective execution and delivery and for any reason (except in accordance with its terms), cease in any way to be in full force and effect or if the Security Documents or any part thereof shall, at any time after its execution and delivery and for any reason (except in accordance with its terms), cease to constitute a Lien of the nature and priority specified in or contemplated by this Agreement (it being agreed that, if the effect of such cessation of force or effect or Lien is prejudicial to the Administrative Agent or the Lenders in only an immaterial manner, such default continues for a period of fifteen (15) days or more after notice of such default has been delivered by the Administrative Agent to the Borrower provided the Borrower and the applicable Loan Party actively cooperate in good faith with the Administrative Agent to rectify such cessation during such period) or if the validity or enforceability of any Loan Document is disputed in any manner by any of the parties thereto other than the Administrative Agent and the Lenders.
- (i) **Winding-up etc.** If an order is made or an effective resolution passed for the winding-up, liquidation or dissolution of a Credit Party except in accordance with Section 9.2(f).
- (j) **Insolvency, etc.**
 - (i) If any Credit Party is insolvent, commits an act of bankruptcy (as defined in the *Bankruptcy and Insolvency Act* (Canada)) or shall generally not, or shall admit in writing its inability to, pay its debts as they become due.
 - (ii) If any Credit Party makes a general assignment for the benefit of its creditors or institutes or consents to any case, proceedings or other action seeking relief on its behalf as a debtor (in respect of its debts generally), or

to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any law of any jurisdiction (whether domestic or foreign) relating to bankruptcy, insolvency, reorganization, or relief of debtors or seeking the appointment of a receiver, manager, receiver and manager, liquidator, trustee, custodian, administrator or other similar official for it or for all or any part of its property or assets or if any Credit Party gives notice to the Administrative Agent or any Lender of its intention to do any of the foregoing.

- (iii) If any case, proceeding or other action is instituted against any Credit Party seeking to have an order for relief entered against it as debtor (in respect of its debts generally) or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any law of any jurisdiction (whether domestic or foreign) relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking the appointment of a receiver, manager, receiver and manager, liquidator, trustee, custodian, administrator or other similar official for it or for any part of its property or assets and such case, proceeding or other action are not being actively and diligently contested in good faith by such Credit Party and have not been discontinued, dismissed or discharged within thirty (30) days of their institution or have a Material Adverse Effect.
- (iv) If any Credit Party takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in this Section 10.1(j) or in Section 10.1(i).
- (k) **Distress, Execution, Attachment.** If a distress, execution, writ, attachment or any similar process is ordered, filed, levied or enforced against all or a substantial part of the property of a Credit Party, and such distress, execution, writ, attachment or similar process is not being contested in good faith by the applicable Credit Party and is not satisfied, vacated or discharged within fifteen (15) days from the date it was ordered or filed or such shorter period as would permit such property or any part thereof to be sold thereunder.
- (l) **Cease to Carry on Business.** If any Credit Party ceases or threatens to cease to carry on its business, or a substantial part thereof other than as permitted in accordance with this Agreement.
- (m) **Judgments.** If one or more judgments or decrees shall be entered against any Credit Party, provided that such judgments or decrees: (i) involve, in the aggregate for all Credit Parties, liabilities (not paid or fully covered by insurance as to which the applicable insurance company has acknowledged coverage) of \$1,500,000 or more, (ii) are not being contested in good faith by the applicable Credit Party, or (iii) have not been vacated, discharged, stayed or bonded pending

appeal within fifteen (15) days from the entry thereof or such shorter period within which any property of a Credit Party may be sold or forfeited thereunder.

- (n) **Change of Control.** If a Change of Control shall occur.
- (o) **Change of Asset Ownership.** If the Fund carries on business at any time other than the holding of Trust Units and Trust Note Indenture Indebtedness and those normal course activities incidental to being a reporting issuer.
- (p) **Adverse Actions or Events.** If any action or event has occurred which has had a Material Adverse Effect.

Section 10.2 Remedies

Upon the occurrence of any Event of Default, and at any time thereafter if the Event of Default shall then be continuing, the Administrative Agent upon written request by the Required Lenders shall take any or all of the following actions:

- (a) by written notice to the Borrower declare all principal amounts of the outstanding Accommodation (including, without limitation, the amount of all outstanding Letters of Credit, whether or not the beneficiaries thereunder shall have taken the required actions to draw down thereunder and the face or principal amount of all outstanding Bankers' Acceptances) and all accrued interest, fees and other amounts owing hereunder to be, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower and the Borrower shall forthwith deliver Cash Collateral to the Administrative Agent as required pursuant to Section 2.8(j) and Section 2.10(g);
- (b) by written notice to the Borrower declare the Credits and the Commitments of each Lender under the Tranches and Credits to be terminated, whereupon the same shall terminate immediately and the Lenders shall have no further obligation to make any Accommodation (including rollovers or continuations of any outstanding Accommodation) or other amounts available to the Borrower under any of the Tranches or Credits;
- (c) realize upon the Security Documents and any other security which secures any other debts, liabilities or obligations of any of the Loan Parties under the Loan Documents; and
- (d) without limitation, exercise any other action, suit, remedy or proceeding authorized or permitted by the Loan Documents or by law or by equity.

Upon an Event of Default occurring under Section 10.1(i) or Section 10.1(j), or in the event of an actual or deemed entry of an order for relief with respect to any Credit Party under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Federal Bankruptcy Code* (U.S.) or similar applicable laws in other jurisdictions:

- (e) the obligation of the Lenders to make any further Accommodation (including, without limitation, any rollovers or continuations of any outstanding Accommodation) or other amounts available to the Borrower shall automatically be terminated; and
- (f) all indebtedness and liabilities of the Borrower to the Administrative Agent and the Lenders under the Loan Documents shall automatically become due and payable.

Section 10.3 Termination of Overdraft Tranche

Notwithstanding Section 10.2, upon the occurrence of any Event of Default (and at any time thereafter, if the Event of Default shall then be continuing), the Overdraft Lender in its sole discretion may, by written notice to the Borrower, the Administrative Agent and the other Lenders, declare the Overdraft Tranche and the Overdraft Commitment to be terminated. On the date of receipt of such notice by the Administrative Agent:

- (a) the Administrative Agent shall calculate each Operating Lender's Pro Rata Share of the Operating Credit Commitment based on each such Lender's outstanding Accommodation under the Operating Credit at such time ("**Unadjusted Pro Rata Share**"). If any Operating Lender's Unadjusted Pro Rata Share of the Operating Credit Commitment is greater than its Pro Rata Share of the Operating Credit Commitment ("**Committed Pro Rata Share**") (any such Operating Lender, a "**Selling Lender**"), then each of those Operating Lenders whose Unadjusted Pro Rata Share of the Operating Credit Commitment is less than its Pro Rata Share of the Operating Credit Commitment (each such Operating Lender, a "**Purchasing Lender**") shall purchase for cash from the Selling Lender, without recourse or representation or warranty (other than as to ownership and no Liens or claims by any Person), an interest in the outstanding Accommodation of the Selling Lender under the Operating Credit at par (including, for certainty, all accrued and unpaid interest and fees thereon) in such amount as would result in a participation by each Operating Lender in the outstanding Accommodation under the Operating Credit based on its Committed Pro Rata Share.
- (b) The Administrative Agent, upon consultation with the applicable Lenders, shall have the power to settle any documentation required to evidence any such purchase and, if deemed advisable by the Administrative Agent, to execute any document as attorney for any Lender in order to complete any such purchase. The Borrower acknowledges that the foregoing arrangements are to be settled by the Lenders among themselves, and the Borrower expressly consents to the foregoing arrangements among the Lenders.
- (c) The Administrative Agent shall recalculate each Operating Lender's Unadjusted Pro Rata Share of the Operating Credit Commitment from time to time prior to the termination of the Operating Credit and the Operating Lenders shall adjust their respective Pro Rata Shares of the Operating Credit Commitment from time to time in accordance with this Section 10.3 as may be required.

Section 10.4 Benefit of Security; Set-off; Sharing of Payments

- (a) The Lenders agree that all payments received by the Lenders under the Loan Documents are to be distributed to the Lenders:
 - (i) based on their respective Pro Rata Shares under the applicable Tranche or Credit, as the case may be, prior to the acceleration of payment of all Accommodation pursuant to Section 10.2, and
 - (ii) based on their respective Pro Rata Shares under the Credits (adjusted to include the Rate Protection Obligations and other Outstanding Obligations applicable to each Lender, if any) from and after the acceleration of payment of all Accommodation pursuant to Section 10.2;

and each Lender agrees to take all such steps and actions as are reasonably required from time to time to give full effect thereto.

- (b) All Security Documents shall be held for the benefit of all of the Lenders, and all proceeds from such Security Documents which are distributable to the Lenders from and after the acceleration of payment of all Accommodation pursuant to Section 10.2 shall be applied for the benefit of the Lenders based on their respective Pro Rata Shares under the Credits (adjusted to include the Rate Protection Obligations and other Outstanding Obligations applicable to each Lender, if any) irrespective of any priority to which any Lender may otherwise be entitled.

Notwithstanding, and in addition to, the foregoing or any other provision of this Agreement, if there shall exist at any time any amount payable by any Lender to any other Lender or the Administrative Agent pursuant to any provision of the Loan Documents, then such amount shall be taken into account when calculating the shares of such Lenders, and an appropriate portion of such amount shall be paid from, any proceeds in respect of Security Documents otherwise payable to such first Lender.

- (c) Nothing contained in the Loan Documents shall require any Lender to exercise any right, or shall affect the right of any Lender to exercise and retain the benefits of exercising any right, with respect to any indebtedness or obligation of any of the Credit Parties existing otherwise than pursuant to the Loan Documents.

Section 10.5 Remedies Cumulative

The rights and remedies of the Administrative Agent and the Lenders under the Loan Documents are cumulative and in addition to and not in substitution for any rights or remedies provided by law or by equity.

Section 10.6 Appropriation of Moneys Received

Each Lender may from time to time when an Event of Default has occurred and is continuing, but subject to Section 5 of the Provisions, appropriate any moneys received by it from any Credit Party or from any security held by such Lender in or toward payment of such of the obligations of the Borrower or any other Credit Party under the Loan Documents as such Lender in its sole discretion may see fit.

Section 10.7 Non-Merger

The taking of a judgment or judgments or any other action or dealing whatsoever by the Administrative Agent or any Lender in respect of the Security Documents will not operate as a merger of any indebtedness or liability of the Borrower to the Administrative Agent or any of the Lenders or in any way suspend payment or affect or prejudice the rights, remedies and powers, legal or equitable, which the Administrative Agent or any Lender may have in connection with such liabilities and the surrender, cancellation or any other dealings with any security for such liabilities will not release or affect the liability of the Credit Parties under any of the Loan Documents or any security held by or on behalf of the Administrative Agent and the Lenders.

ARTICLE 11 CONDITIONS PRECEDENT TO BORROWINGS

Section 11.1 Conditions Precedent to Effectiveness

The effectiveness of this Agreement is subject to the terms and conditions of this Agreement and is conditional upon satisfactory evidence being given to the Administrative Agent, the Lenders and their counsel (at their sole discretion) as to compliance with the following conditions:

- (a) The Administrative Agent shall have received all of the following in form and substance satisfactory to it and each Lender:
 - (i) this Agreement and all other Loan Documents duly executed and delivered as contemplated hereunder;
 - (ii) the Security Documents, which shall have been duly registered and filed in favour of the Agent and the Lenders in all jurisdictions deemed necessary by the Administrative Agent, including, without limitation:
 - (1) the original share certificate for Spinrite Corp. and undated power of attorney in respect thereof,
 - (2) a replacement original ordinary partnership unit certificate in respect of the Borrower held by Holding and replacement undated power of attorney to transfer securities in respect thereof, and

- (3) an acknowledged assignment of lease/license, landlord waiver and fixture filing in respect of the leased properties municipally known as 596 Cedar Avenue, Wingham, Ontario and 275 Elma Street West, Listowel, Ontario, together with title insurance policies or title opinions from counsel to the Loan Parties in respect thereof;
 - (iii) executed acknowledgments and consents of the holders of the Subordinated Holding LP Units in form and substance satisfactory to the Lenders;
 - (iv) third party consents relative to the issuance of the Security Documents to the extent required by the Administrative Agent;
 - (v) acknowledgement copies of properly filed financing statements in all provinces of Canada and all states in the United States of America in which the Loan Parties own assets, or such other evidence of filing, recordation or registration as may be acceptable to the Administrative Agent;
 - (vi) executed discharges, releases and/or termination statements necessary to release all Liens and other rights of any Person in any Collateral that are not Permitted Liens and/or priority agreements and/or acknowledgments with any such Person to the extent agreed to in writing by the Administrative Agent and the Lenders; and
 - (vii) favourable opinions from legal counsel to the Credit Parties in all jurisdictions deemed necessary by the Administrative Agent, in connection with the Loan Documents and the Security Documents, as applicable, and title insurance in respect of the Owned Property.
- (b) The Administrative Agent shall have received all of the following, in form and substance satisfactory to the Administrative Agent and each Lender:
- (i) true and complete copies of a written report by Grant Thornton LLP, if and when prepared, concerning the productivity enhancing project being undertaken by the Loan Parties, the contents of such report to be satisfactory to the Lenders,
 - (ii) a listing of the storage locations for the Fancy Yarn inventory of the Loan Parties,
 - (iii) updated certificates of insurance and certified copies of the insurance policies for all Insurance maintained by the Credit Parties (together with confirmation as to adequate insurance coverage for Fancy Yarn inventory of the Loan Parties);

- (iv) true and complete copies of all environmental reports produced by GaiaTech or any other Person in respect of any of the Owned Property or Leased Property subsequent to August 11, 2004;
- (v) certification from the Borrower that there has been no material change in the environmental condition or circumstances in respect of the Owned Property and Leased Property since August 11, 2004.
- (vi) true and complete copies of the Spinrite Statements and the Quarterly Spinrite Statements together with:
 - (A) a certificate as at the Closing Date signed by a Responsible Officer of the Borrower certifying, among other things, that no Default or Event of Default has occurred and is continuing; and
 - (B) a Borrowing Base Certificate as at October 28, 2006, all in reasonable detail and certified to be true by a Responsible Officer of the Borrower; and
- (vii) a written explanation from the Borrower as to the reasons for the following trademark applications and registrations being abandoned or cancelled by the Loan Parties:

Country	Trade-mark	Application/Registration Number
CANADA	DENIMSTYLE	1,220,826
	FUR OUT	1,221,751
	GALAXY	1,221,750
	GRACE	1,220,824
	SATIN	1,220,835
	SOFT BOUCLE	1,220,830
	VELOUR	1,221,747
UNITED STATES	DENIMSTYLE	78478619
	FUR OUT	78478664
	SOLO	78478656
	VELOUR	78478539
	LILY	237,163

- (viii) written confirmation from legal counsel to the Borrower: (A) that the USPTO records in respect of the LILY trademarks show that right, title and interest in the US trademark registration identified as “LILY” (Reg. No. 237,163) (the “**Original LILY Trademark**”) reflect the Borrower as the owner of the Original LILY Trademark, (B) that chain of title to ownership of the Original LILY Trademark registration is not impaired or deficient in any fashion, and (C) providing a status update on any and all cancellation proceedings against the Original LILY Trademark and all other such proceedings in respect thereof.
 - (ix) written confirmation from the Borrower that it has maintained its exclusive right to use the Patons trademarks (including, without limitation, those Patons trademarks listed in Schedule 8.1(t).
 - (x) such other financial and other information relating to the Credit Parties as the Administrative Agent shall have reasonably requested.
- (c) The Administrative Agent shall have received the following documents in form, substance and execution reasonably acceptable to it and its legal counsel:
- (i) a certified copy of the constating documents and by-laws of each Loan Party, and of all corporate proceedings taken and required to be taken by each Loan Party to authorize the execution and delivery of the Loan Documents to which it is a party and the performance of the transactions by it contemplated in such Loan Documents;
 - (ii) a certificate of incumbency for each Credit Party setting forth specimen signatures of the individuals who will execute the Loan Documents to which it is a party;
 - (iii) a certificate of status/compliance/good standing for each Credit Party, as applicable; and
 - (iv) such other documents relative to the Loan Documents and the transactions contemplated in the Loan Documents as the Administrative Agent and the Lenders may reasonably require.
- (d) The Administrative Agent and each Lender shall be satisfied that, since December 31, 2005, there has been no material adverse change in the business, condition (financial or otherwise), operations, properties or prospects of the Borrower on a consolidated basis except as disclosed in Schedule 8.1(i) attached hereto.
- (e) The Borrower shall have paid to the Administrative Agent and the Lenders all fees owing to them at such time and all other reasonable fees, expenses (including the Closing Fee and all the reasonable fees and disbursements of all agents and legal counsel of the Administrative Agent and the Lenders) and other amounts which shall have become due and payable by it to the Administrative Agent or any Lender pursuant to any Loan Document on or prior to the Closing Date.

- (f) There shall exist no Default or Event of Default and a Borrowing would not result in the occurrence of a Default or an Event of Default including, without limitation, a breach of any of the financial covenants set out in Section 9.3.
- (g) All representations and warranties contained in Article 8 and in the other Loan Documents shall be true, complete and correct in every material respect.

Section 11.2 Conditions Precedent to Subsequent Accommodation

The obligation of the the Lenders to make available any Accommodation under this Agreement at or after the time that this Agreement becomes effective is conditional upon satisfactory evidence being given to the Administrative Agent (at its sole discretion) as to compliance with the following conditions:

- (a) The Administrative Agent shall have received the relevant Notice of Availment ((including, without limitation, in respect of any rollovers and conversions of any outstanding Accommodation for which a Notice of Availment shall be required but other than in respect of Prime Rate Loans and U.S. Base Rate Loans under the Overdraft Tranche for which no Notice of Availment shall be required).
- (b) There shall exist no Default or Event of Default which is continuing on the applicable Borrowing Date and the Accommodation would not result in the occurrence of a Default or an Event of Default.
- (c) The representations and warranties contained in Article 8 and in any other Loan Document shall be true in all material respects on and as of the applicable Borrowing Date with the same effect as if such representations and warranties had been made on and as of the applicable Borrowing Date except to the extent expressly stated to have been made only as of a specific date.
- (d) In the case of an issue of a Letter of Credit, the Issuing Bank shall have received from the Borrower a duly executed Letter of Credit Agreement in respect of such Letter of Credit.
- (e) Neither the Administrative Agent nor any Lender shall have received a notice from any third party the effect of which in law would be to make the Administrative Agent or any Lender liable to such third party for the amount to be advanced, if such amount was advanced, including, without limitation, third party demands made by Canada Customs and Revenue Agency and any notice of seizure of bank accounts from any Governmental Authority.

ARTICLE 12 THE ADMINISTRATIVE AGENT

Section 12.1 Knowledge and Required Action

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default (other than the non-payment of any principal,

interest or other amount to the extent the same is required to be paid to the Administrative Agent for the account of the Lenders) unless the Administrative Agent has received notice from a Lender or the Borrower specifying such Default or Event of Default and stating that such notice is given pursuant to this Section 12.1. In the event that the Administrative Agent receives such a notice, it shall give prompt notice of the same to the Lenders, and shall also give prompt notice to the Lenders of each non-payment of any amount required to be paid to the Administrative Agent for the account of the Lenders. The Administrative Agent shall, subject to Section 12.2, take such action with respect to such Default or Event of Default as shall be directed by the Required Lenders in accordance with this Article 12; provided that, unless and until the Administrative Agent shall have received such direction, the Administrative Agent may, but shall not be obliged to, take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders; and provided further that the Administrative Agent in any case shall not be required to take any such action which it determines to be contrary to the Loan Documents or to any Applicable Law in respect of any Person.

Section 12.2 Request for Instructions

The Administrative Agent may at any time request instructions from the Required Lenders with respect to any actions or approvals which, by the terms of any of the Loan Documents, the Administrative Agent is permitted or required to take or to grant, and the Administrative Agent shall be absolutely entitled to refrain from taking any such action or to withhold any such approval and shall not be under any liability whatsoever as a result thereof until it shall have received such instructions from the Required Lenders. The Administrative Agent shall in all cases be fully justified in failing or refusing to take or continue any action under the Loan Documents unless it shall have received further assurances to its satisfaction from the Lenders of their indemnification obligations under this Agreement (including, without limitation, the Provisions) against any and all liability and expense which may be incurred by it by reason of taking or continuing to take such action, and unless it shall be secured in respect thereof as it may deem appropriate.

Section 12.3 Authorization to Release Liens

The Administrative Agent is hereby irrevocably authorized by each of the Lenders to release any Lien covering any property or assets of any Credit Party which has been transferred, sold, sold and leased back or otherwise disposed of as permitted under the terms of this Agreement, or which has been consented to in accordance with Section 12.4.

Section 12.4 Actions by Lenders

- (a) Any approval (including, without limitation, any approval of or authorization for any amendment to, or supplement or discharge of, any of the Loan Documents, whether or not affecting the rights of the Lenders or any of them or the rights or obligations of the Credit Parties or any of them), waiver (including, without limitation, any waiver of the requirements of any Loan Document or any Default or Event of Default and whether with or without conditions), consent, instruction or other expression of the Lenders or any group thereof hereunder shall be

obtained by an instrument in writing signed in one or more counterparts by the Required Lenders (or if required by Section 12.4(c), the Required Facility Lenders or all the Lenders, as the case may be) (which instrument in writing, for greater certainty, may be executed in counterparts as provided for in Section 13 of the Provisions and delivered by facsimile).

- (b) Subject to any other provision of this Section 12.4, any approval, waiver, consent, instruction or other expression so expressed by the Required Lenders (or, if required by Section 12.4(c), the Required Facility Lenders or all the Lenders, as the case may be), shall be binding on all the Lenders and the Administrative Agent.
- (c) Notwithstanding Section 12.4(a), no approval, waiver, consent or instruction of the Required Lenders shall:
 - (i) decrease the principal amount of the outstanding Accommodation under any Tranche or Credit or change the scheduled or final Maturity Date with respect to any Tranche or Credit, change the scheduled date of any amortization payment in respect of any Term Loan, reduce the stated rate or amount of any interest, fee or letter of credit commission payable hereunder or change the scheduled date of any payment thereof, increase or decrease the amount of any Lender's Commitment, or amend, modify or waive any provision of any Loan Document requiring payments to be made to the Lenders based on their Pro Rata Share with respect to a particular Tranche or Credit or all the Credits (including, without limitation, Section 10.4), in each case without the consent of all Lenders;
 - (ii) amend, modify or waive any provision of this Section 12.4(c) or reduce any percentage specified in the definition of Required Lenders, consent to the assignment or transfer by any Loan Party of any of its rights and obligations under the Loan Documents, release any of the Collateral secured by the Security Documents (except as otherwise permitted by this Agreement), in each case without the consent of all Lenders;
 - (iii) reduce the percentage specified in the definition of Required Facility Lenders without the consent of all Lenders under each affected Tranche or Credit;
 - (iv) amend, modify or waive any provision of Section 5.2, Section 5.3, Section 5.4 or Section 5.7 without the consent of the Required Lenders and, with respect to the Term Credit, the Required Facility Lenders under the Term Credit;
 - (v) amend, modify or waive any provision of Section 5.5 without the consent of the Required Lenders and, with respect to each of the Credits affected thereunder, the Required Facility Lenders under each such affected Credit;
or

- (vi) amend, modify, or waive any provision of Section 5.6 or Section 5.8 without the consent of the Required Facility Lenders under the Operating Credit.
- (d) Notwithstanding Section 12.4(a) and Section 12.4(c):
 - (i) no amendment or waiver of Section 6 or Section 7 of the Provisions, and no amendment or waiver of the duties, rights or liabilities of the Administrative Agent under any of the Loan Documents, shall be made without the consent of the Administrative Agent;
 - (ii) no amendment to, or waiver or postponement of, the terms and conditions in respect of the Overdraft Tranche or any amendment to or waiver of any of the provisions of Section 2.11, or Section 10.3 shall be made or granted without the consent of the Overdraft Lender; and
 - (iii) no amendment to, or waiver or postponement of, the terms and conditions in respect of the Letters of Credit or any amendment to or waiver of any of the provisions of Section 2.10 shall be made or granted without the consent of the Issuing Bank.

ARTICLE 13

MISCELLANEOUS

Section 13.1 Assignment and Assumption Processing and Recordation Fees

The parties to any Assignment and Assumption shall pay on the effective date specified in such Assignment and Assumption to Administrative Agent a processing and recordation fee of \$2,000 (in the currency of the Commitment being assigned and transferred).

Section 13.2 Waiver

No delay on the part of the Administrative Agent or any Lender in exercising any right or privilege under any Loan Document shall operate as a waiver of such right or privilege, and no waiver of any Default or Event of Default shall operate as a waiver of such Default or Event of Default unless made in writing and signed by an authorized officer of the Administrative Agent. No written waiver shall preclude the exercise by the Administrative Agent or any Lender of any right, power or privilege under any Loan Document other than in respect of the specific action or inaction covered by such waiver and strictly in accordance with the terms of such waiver, or extend to or apply to any other Default or Event of Default. No Lender shall be deemed to have waived, by reason of making available any Accommodation under this Agreement, any Default or Event of Default which has arisen by reason of any representation or warranty made or deemed to have been made in any Loan Document proving to be false or misleading.

Section 13.3 Further Assurances

Each Loan Party shall from time to time promptly upon request by the Administrative Agent do, make and execute, and cause each other Credit Party to do, make and execute, all such documents, acts, matters and things as may be reasonably required by the Administrative Agent to give effect to the Loan Documents, and to any assignment or transfer permitted by Section 10 of the Provisions.

Section 13.4 Notices

Any notice or communication to be given under this Agreement (other than telephone notice as specifically provided in this Agreement) may be effectively given by delivering the same to each Loan Party or the Administrative Agent at the address set out opposite its signature or to any Lender at its address set out on Schedule 1.1(tt) (or with respect to any Eligible Assignee pursuant to Section 10 of the Provisions, to the address provided by such Eligible Assignee to the Borrower and the Administrative Agent) or by sending the same by facsimile or prepaid registered mail to the parties at such addresses.

Section 13.5 Survival

All agreements, representations and warranties made in this Agreement shall survive the execution and delivery of this Agreement and the obtaining of Accommodation, and all indemnities set forth in this Agreement shall survive the repayment of all Accommodation and the termination of this Agreement.

Section 13.6 Quantities of Documents

Each Loan Party agrees to provide to the Administrative Agent sufficient quantities of all documents, reports, financial statements and other information required under the Loan Documents to be provided to the Administrative Agent so that there shall be copies for the Administrative Agent and each of the Lenders.

Section 13.7 Reproduction of Documents

All Loan Documents and all documents relating to any Loan Documents, including consents, waivers and modifications which may hereafter be executed, documents received by the Administrative Agent or the Lenders in connection with the negotiation of this Agreement and the making available of Accommodation, and financial statements, certificates and other information previously or hereafter furnished to the Administrative Agent or the Lenders, may be reproduced by the Administrative Agent or the Lenders by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and the Administrative Agent and the Lenders may destroy any original documents so reproduced. The Loan Parties agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Administrative Agent or the Lenders in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

Section 13.8 Benefit of Agreement

This Agreement shall be binding upon and enure to the benefit of the parties to this Agreement and their respective successors and permitted assigns.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS OF WHICH the parties to this Agreement have executed this Agreement as of the day and year indicated on the first page of this Agreement.

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

**SPINRITE LIMITED PARTNERSHIP, by its
General Partner, Spinrite GP Inc.**

By: Dario Margve
Name: Dario Margve
Title: President and CEO

I have authority to bind the Limited Partnership and its General Partner.

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

SPINRITE GP INC.

By: Dario Margve
Name: Dario Margve
Title: President and CEO

I have authority to bind the Corporation.

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

**SPINRITE HOLDING LP, by its general partner,
SPINRITE GP INC.**

By: Dario Margve
Name: Dario Margve
Title: President and CEO

I have authority to bind the Limited Partnership and its General Partner.

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

SPINRITE TRUST

By:

Gary Winkless for and on behalf of the
Trustees, in their capacities as trustees

I have authority to bind the Trust and the Trust
Property.

**SPINRITE CORP. (formerly 3096487 NOVA
SCOTIA COMPANY)**

By:

Dario Margve
Name: Dario Margve
Title: President and CEO

I have authority to bind the Corporation.

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

Address:

320 Livingstone Avenue South, Box 40
Listowel, Ontario
N4W 3H3

Attention: Mr. Ryan Newell
Facsimile: (519) 291-4163

SPINRITE TRUST

By:

G. J. Zuhars
Gary Leukas for and on behalf of the
Trustees, in their capacities as trustees

I have authority to bind the Trust and the Trust
Property.

**SPINRITE CORP. (Formerly 3696487 NOVA
SCOTIA COMPANY)**

By:

Dario Margve
Name: Dario Margve
Title: President and CEO

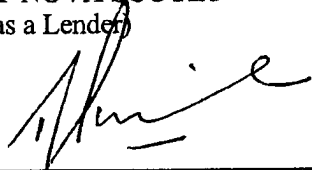
I have authority to bind the Corporation.

Address:

Global Risk Management, Special Accounts
44 King Street West
16th Floor
Toronto, Ontario
M5H 1H1

Attention: Mr. David Smiles
Facsimile: (416) 933-3015

THE BANK OF NOVA SCOTIA
(in its capacity as a Lender)

By: 

Name: David Smiles
Title: Assistant General Manager

By: _____

Name:
Title:

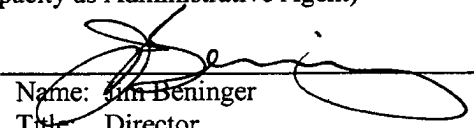
I/We have the authority to bind the Bank.

Address:

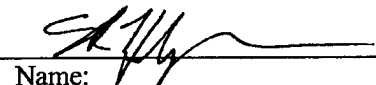
40 King Street West, 61st Floor
Toronto, Ontario
M5H 1H1

Attention: Mr. Jim Beninger
Facsimile: (416) 866-3329

THE BANK OF NOVA SCOTIA
(in its capacity as Administrative Agent)

By: 

Name: Jim Beninger
Title: Director

By: 

Name: Steve Holyman
Title: Associate

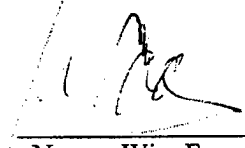
I/We have the authority to bind the Bank.

Address:

Special Loans, Head Office
Commerce Court West
6th Floor
Toronto, Ontario
M5L 1A2

Attention: Mr. Wim Faassen
Facsimile: (416) 214-8749

CANADIAN IMPERIAL BANK OF COMMERCE
(in its capacity as a Lender)

By: 

Name: Wim Faassen
Title: General Manager

By: _____

Name:
Title:

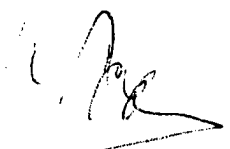
I/We have authority to bind the Bank.

Address:

Special Loans, Head Office
Commerce Court West
6th Floor
Toronto, Ontario
M5L 1A2

Attention: Mr. Wim Faassen
Facsimile: (416) 214-8749

CANADIAN IMPERIAL BANK OF COMMERCE
(in its capacity as Syndication Agent)

By: 

Name: Wim Faassen
Title: General Manager

By: _____

Name:
Title:

I/We have authority to bind the Bank.

Address:
24th Floor 1 First Canadian Place
Toronto, Ontario
M5X 1H3

Attention: Stanley Julien
Facsimile: 416-867-5785

BANK OF MONTREAL
(in its capacity as a Lender)

By:


Name: Stanley Julien
Title: Vice President

By:

Name:
Title:

I/We have authority to bind the Bank.

Schedule 1.1(b)
Continuing Letters of Credit

Standby Letter of Credit dated August 24, 2006 (as amended November 1, 2006) issued by The Bank of Nova Scotia in favour of G. Modiano Limited in the face amount of \$410,000 with an expiry date of July 31, 2007.

Schedule 1.1(tf)
Lender Commitments

			Column 1	Column 2	Column 3 (Column 2 carveout from Column 1)	Column 4
	Lender	Address for Notice	Operating Credit Commitment			
			Revolving Commitment	Overdraft Commitment	Total Operating Credit Commitment	Term Commitment
1.	The Bank of Nova Scotia	Global Risk Management, Special Accounts, 44 King Street West, 16 th Floor Attn: Mr. David Smiles Fax: (416) 933-3015	\$3,200,000	\$3,200,000	\$3,200,000	\$16,316,400
2.	Canadian Imperial Bank of Commerce	Special Loans, Head Office Commerce Court West, 6th Floor, Toronto, Ontario M5L 1A2 Attn: Mr. Wim Faassen Fax: (416) 214-8749	\$3,200,000		\$3,200,000	\$16,316,400
3.	Bank of Montreal	24 th Floor 1 First Canadian Place Toronto, Ontario M5X 1H3 Attn: Mr. Stanley Julien Fax: 416-867-5785	\$1,600,000		\$1,600,000	\$8,158,200
Total Commitment:			\$8,000,000	\$3,200,000	\$8,000,000	\$40,791,000

Schedule 1.1(uu)
Compliance Certificate

TO: THE BANK OF NOVA SCOTIA, as Administrative Agent for the Lenders (the "Administrative Agent")

AND TO: THE FINANCIAL INSTITUTIONS PARTY TO THE CREDIT AGREEMENT (as defined below), as lenders (the "Lenders")

RE: Amended and Restated Credit Agreement dated as of November 10, 2006 among Spinrite Limited Partnership, as borrower, the other Loan Parties party thereto, as guarantors, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal and such other lenders as may become party thereto from time to time, as lenders, The Bank of Nova Scotia, as administrative agent, and Canadian Imperial Bank of Commerce, as syndication agent, as such agreement may be amended, modified, supplemented, restated or replaced from time to time (the "Credit Agreement").

I, _____, the _____ of Spinrite GP Inc. (the "Corporation"), the general partner of Spinrite Limited Partnership (the "Partnership") hereby certify, on behalf of the Corporation and the Partnership as follows:

1. This Certificate is furnished pursuant to Section 9.1(i)(iv) of the Credit Agreement.
2. I have read and am familiar with the Credit Agreement including, in particular, the definitions of the various terms used in the Credit Agreement.
3. With reference to, without limitation, the financial statements of the Partnership for the period ended _____ (the "Reporting Period"), copies of which have been delivered to the Administrative Agent:
 - (a) As at the end of the Reporting Period, except to the extent noted in the attachment hereto, no Default or Event of Default had occurred and is continuing and the representations and warranties contained in the Credit Agreement and the other Credit Documents are true and correct in every material respect with the same effect as if such representations and warranties had been made on and as of the date of this Compliance Certificate (except where stated in the Credit Agreement to be made only as at the Closing Date);
 - (b) The Total Funded Debt to EBITDA Ratio as at the end of the Reporting Period based on the Partnership's most recently completed Four Quarter Period is _____. **1. A detailed calculation of this ratio is attached as an Annex hereto.**

- (c) The Interest Coverage Ratio as at the end of the Reporting Period based on the Partnership's most recently completed Four Quarter Period is _____:1. **A detailed calculation of this ratio is attached as an Annex hereto.**
- (d) The Current Ratio as at the end of the Reporting Period is _____:1. **A detailed calculation of this ratio is attached as an Annex hereto.**
- (e) Capital Expenditures incurred during the Reporting Period amount to _____.
- (f) The Applicable Loan Spread is set at Level _____ as set out in Section 4.1 of the Credit Agreement.
- (g) The Applicable Stamping Fee is _____ %.
- (h) The Applicable LC Fee Rate is _____ %.
- (i) The Applicable Standby Fee Rate is _____ %.
- (j) An aggregate of \$_____ of Net Cash Proceeds were received by the Credit Parties in the Reporting Period. **Annexed hereto are details of, without limitation, (i) the event or events from which such Net Cash Proceeds were derived, (ii) the calculation of such Net Cash Proceeds.**

4. All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement. All calculations herein are to be made with reference to all provisions of the Credit Agreement and the Borrower is not to rely exclusively upon the summary nature of this Schedule 1.1(uu) in making its calculations. To the extent that there is any inconsistency between this Schedule 1.1(uu) and other provisions in the Credit Agreement, such other provisions shall prevail.

Dated this _____ day of _____, 20____.

SPINRITE LIMITED PARTNERSHIP, by its
General Partner, Spinrite GP Inc.

Name:

Title:

Schedule 1.1(dddd)

Summary of Fund Transaction

The following summary of the Fund Transaction as set forth in final prospectus of the Fund, dated January 31, 2005, on pp. 7, and 49-50:

“The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated December 8, 2004. The Fund’s head office is located at 320 Livingstone Avenue South, Listowel, Ontario, N4W 3H3.

At the completion of the public issuance and sale of 20,291,200 Fund Units, the Fund will indirectly acquire 80% of the securities of the Borrower from the current direct and indirect holders of limited partnership units of the Borrower, each of whom will continue to indirectly hold an interest through the ownership of subordinated limited partnership units of Holding representing a 20% interest in the Borrower, on a fully-diluted basis.

(p. 7)

Acquisition

On the Closing Date, the Fund will issue 20,291,200 Units pursuant to the offering and immediately thereafter the following transactions will take place:

- The Fund will use approximately \$18,824,456 of the net proceeds of the offering to subscribe for Trust Units and the balance to subscribe for Series 1 Trust Notes having an aggregate principal amount of approximately \$169,420,104 and bearing interest at the rate of 3% per annum;
- The Trust will subscribe for 1 common share in the capital of 6328661 Canada Limited (representing 100% of 6328661 Canada Limited’s issued and outstanding shares) for approximately \$15,235,932 and make a loan to 6328661 Canada Limited of approximately \$137,123,389, evidenced by a promissory note (the “6328661 Canada Limited Note”);
- 6328661 Canada Limited will purchase all the shares of 3083522 Nova Scotia Company for approximately \$147,316,330 from Delaware LP and all the shares of Yarn Management Company for approximately \$5,042,991 from Spinrite Management LP;
- The Trust will purchase all of the Ordinary Holding LP Units held by Management Corporations for an aggregate purchase price of approximately \$35,885,239;
- 3083522 Nova Scotia Company and Yarn Management Company will be wound up into 6328661 Canada Limited with the result that 6328661 Canada Limited will own the Ordinary Holding LP Units owned by 3083522 Nova Scotia Company and Yarn Management Company and the shares of GP Inc. owned by 3083522 Nova Scotia Company;
- 6328661 Canada Limited will transfer all of the Ordinary Holding LP Units and the common shares in Spinrite GP Inc. to the Trust in repayment of the \$137,123,389 loan to 6328661 Canada Limited from the Trust and as a return of capital in respect of the common shares of 6328661 Canada Limited;

- Delaware LP will subscribe for, and be issued, additional common shares and debt of 3096488 Nova Scotia Company;
- 3096488 Nova Scotia Company will subscribe for, and be issued, approximately \$9,518,962 of Subordinated Holding LP Units;
- Spinrite Management LP will subscribe for, and be issued, additional common shares and debt of 3096489 Nova Scotia Company; and
- 3096489 Nova Scotia Company will subscribe for, and be issued, approximately \$325,928 of Subordinated Holding LP Units.

Following closing and completion of the above transactions, the Fund will hold all of the Trust Units and the Trust Notes. The Trust will, in turn hold all of the Ordinary Holding LP Units, representing 80% of the total outstanding Holding Units as well as all of the common shares of GP Inc. The current and indirect holders of limited partnership units of the Borrower which includes the Management Corporations, Spinrite Management LP and Delaware LP will directly and indirectly hold all of the Subordinated Holding LP Units representing approximately 20% of the Holding Units and Holding will hold all the limited partnership interests in the Borrower (the "LP Units").

(pp. 49-50)

Schedule 1.1(www)
Key Agreements

1. Purchase Agreement dated as of December 29, 2003 among Spinrite Limited Partnership, Terrier Incorporated, 1076245 Ontario Limited, Robert Hay and Spinrite Inc.;
2. Amended and Restated Purchase Agreement dated as of December 29, 2003 among Spinrite Limited Partnership, Terrier Incorporated, 1076245 Ontario Limited, Robert Hay and Spinrite Inc.;
3. License Agreement dated September 1, 1999 between Coats Canada Inc. and 1647052 Ontario Limited (formerly 1287356 Ontario Inc.); and
4. Contract for Short-term sale and purchase of natural gas dated September 1, 2004 between Nexen Marketing and Spinrite Limited Partnership.

Schedule 1.1(nnnnn)
Mandatory Prepayment Certificate

TO: THE BANK OF NOVA SCOTIA, as Administrative Agent for the Lenders (the "Administrative Agent")

AND TO: THE FINANCIAL INSTITUTIONS PARTY TO THE CREDIT AGREEMENT (as defined below), as lenders (the "Lenders")

RE: Amended and Restated Credit Agreement dated as of November 10, 2006 among Spinrite Limited Partnership, as borrower, the other Loan Parties party thereto, as guarantors, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal and such other lenders as may become party thereto from time to time, as lenders, The Bank of Nova Scotia, as administrative agent, and Canadian Imperial Bank of Commerce, as syndication agent, as such agreement may be amended, modified, supplemented, restated or replaced from time to time (the "Credit Agreement").

I, _____, the _____ of Spinrite GP Inc. (the "Corporation"), the general partner of Spinrite Limited Partnership (the "Partnership") hereby certify, on behalf of the Corporation and the Partnership as follows:

1. This Certificate is furnished pursuant to Section(s) [5.3(a)(i) or 5.3(a)(ii) or 5.3(a)(iii)] of the Credit Agreement.
2. I have read and am familiar with the Credit Agreement including, in particular, the definitions of the various terms used in the Credit Agreement.
3. With respect to Section 5.3(a)(i), the total Net Cash Proceeds received in connection with the Asset Sale and/or Recovery Event and/or Sale of Fancy Yarn, as the case may be, was \$ _____. **A detailed calculation of the Net Cash Proceeds received from the Asset Sale and/or Recovery Event and/or Sale of Fancy Yarn is provided as part of the Annex attached hereto.**
4. With respect to Section 5.3(a)(ii), the total Net Cash Proceeds received in connection with the public or private Debt financing, as the case may be, was \$ _____. **A detailed calculation of the Net Cash Proceeds received from the public or private Debt is provided as part of the Annex attached hereto.**
5. With respect to Section 5.3(a)(iii), the Monthly Distributable Amount for the month ending _____ was \$ _____. **A detailed calculation of the Monthly Distributable Amount is provided as part of the Annex attached hereto.**
6. All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement. All calculations herein are to be made with reference to all

provisions of the Credit Agreement and the Borrower is not to rely exclusively upon the summary nature of this Schedule 1.1(nnnnn) in making its calculations. To the extent that there is any inconsistency between this Schedule 1.1(nnnnn) and other provisions in the Credit Agreement, such other provisions shall prevail.

Dated this _____ day of _____, 200__.

SPINRITE LIMITED PARTNERSHIP, by its
General Partner, Spinrite GP Inc.

Name:

Title:

Schedule 1.1(IIIIII)
Form of Undertaking and Acknowledgement

See Attached.

Schedule 2.5
Form of Notice of Availment

TO THE BANK OF NOVA SCOTIA, as Administrative Agent for the Lenders (the "Administrative Agent")

RE: Amended and Restated Credit Agreement dated as of November 10, 2006 among Spinrite Limited Partnership, as borrower, the other Loan Parties party thereto, as guarantors, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal and such other lenders as may become party thereto from time to time, as lenders, The Bank of Nova Scotia, as administrative agent, and Canadian Imperial Bank of Commerce, as syndication agent, as such agreement may be amended, modified, supplemented, restated or replaced from time to time (the "Credit Agreement").

1. With reference to the Credit Agreement, Spinrite Limited Partnership (the "Borrower") requests the following Accommodation by way of **[initial Borrowing / rollover / continuation of one type of Accommodation as another type of Accommodation]**:

- (a) The applicable Borrowing Date is to be _____, 20__.
- (b) An **[initial Borrowing / rollover / continuation of one type of Accommodation as another type of Accommodation]** is to be obtained:
- ☐ under Term Credit
- OR
- ☐ under Revolving Tranche
- OR
- ☐ with respect to Letters of Credit only, under Revolving Tranche.

{only complete paragraph (c) below in respect of an initial Borrowing of any Accommodation}

- (c) the Borrowing is to consist of:
- ☐ Prime Rate Loans in the aggregate amount of Cdn. \$ _____
- ☐ Bankers' Acceptances in the aggregate amount of Cdn. \$ _____

☐ U.S. Base Rate Loans in the aggregate amount of U.S. \$ _____

☐ Letter of Credit in accordance with the terms set out below.

{only complete paragraph (d) below in respect of a rollover}

- (d) [Bankers' Acceptances with face amounts aggregating Cdn. \$ _____ are to be rolled over as Bankers' Acceptances with the same aggregate face amount.]

{only complete paragraphs (e), (f), and (g) below in respect of a continuation of one type of Accommodation as another type of Accommodation}

- (e) [Prime Rate Loans aggregating Cdn. \$ _____ are to be continued as aggregating [Cdn. / U.S.] \$ _____.]
- (f) [Bankers' Acceptances aggregating Cdn. \$ _____ are to be continued as aggregating [Cdn. / U.S.] \$ _____.]
- (g) [U.S. Base Rate Loans aggregating U.S. \$ _____ are to be continued as _____ aggregating [Cdn. / U.S.] \$ _____.]

{complete paragraph (h) below in respect of an initial Borrowing, rollover or continuation of a Bankers' Acceptance}

- (h) If the [initial Borrowing / rollover/ continuation] of Accommodation consists of Bankers' Acceptances, the term of such Bankers' Acceptances is to be 30 days with a maturity date of _____.

{complete paragraph (i) below in respect of an initial Borrowing of a Letter of Credit}

- (i) If the Borrowing of Accommodation consists of a Letter of Credit:
- (i) the face amount of the Letter of Credit will be the aggregate of [Cdn. / U.S.] \$ _____;
- (ii) the expiration date of the Letter of Credit will be _____;
- (iii) the name and address of the beneficiary of the Letter of Credit is as follows:

- (iv) attached as an Annex hereto are copies of all documentation with respect to the supported transaction including a description of the proposed terms and conditions of such Letter of Credit, with a precise description of any documents to be presented by the beneficiary which, if presented by the beneficiary prior to the expiration date of such Letter of Credit, would require the Issuing Lender to make payment under such Letter of Credit.

2. The Borrower confirms that as at the date of this Notice of Availment:

- (a) no Default or Event of Default has occurred and is continuing or will have occurred and be continuing on the applicable Borrowing Date, or will result from the Borrowing requested in this Notice of Availment and the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in every material respect with the same effect as if such representations and warranties had been made on and as of the date of this Notice of Availment (except where stated in the Credit Agreement to be made only as at the Closing Date and unless this Notice of Availment pertains solely to a rollover or conversion of an existing Borrowing);
- (b) all of the conditions precedent to the Borrowing requested in this Notice of Availment, as specified in Article 11 of the Credit Agreement have been satisfied.

3. All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement.

Dated this _____ day of _____, 200__.

SPINRITE LIMITED PARTNERSHIP, by its
General Partner, Spinrite GP Inc.

Name:

Title:

I/We have authority to bind the Corporation
and the Partnership.

Schedule 7.1(c)
Form of Assignment and Postponement

See attached.

Schedule 7.1(i)
Leased and Owned Real Property

A. Owned Properties

1. 1700 Bassett Avenue South, Listowel, Ontario (Distribution Centre)

Part of Lot 33, Concession 1, designated as Part 2 on Reference Plan No. 44R-3881, Town of North Perth, County of Perth.

Being the whole of PIN 53027-0607 (LT)

2. 305 Livingstone Avenue South, Listowel, Ontario (Warehouse)

Lots 8, 9, 10, 11, 12 and Part Lot 7, Plan 194, West side of Livingstone Avenue South; Lots 13, 14, 15, 16, 17, 18 and 19, and Part of Lot 521, and Part of Victoria Street (Closed by By-law 1453 Instrument No. 15396), Plan 177; designated as Parts 1, 2 and 3, Reference Plan No. 44R-4273, Town of North Perth, County of Perth.

Being Part of PIN 53023-0153 (LT)

3. 320 Livingstone Avenue South, Listowel, Ontario (Plant Facility)

Lots 1, 23 and 24 and Part of Lots 6, 21 and 22, Registrar's Compiled Plan 382, designated as Part 2 on Reference Plan No. 44R-4276, Town of North Perth, County of Perth.

Being Part of PIN 53023-0159 (LT)

B. Leased Properties

1. 220 and 230 Elma Street, Listowel, Ontario (Leased Outlet)

Lot 5 and Part of Lot 6, Registrar's Compiled Plan 382, designated as Part 1 on Reference Plan No. 44R-4276, Town of North Perth, County of Perth.

Being the whole of PIN 53023-0158 (LT)

2. 2700 Dufferin Street, Unit 1, Toronto, Ontario (Retail Outlet)

3. 596 Cedar Avenue, Wingham, Ontario.

Those parts of Park Lots 19, 20, 21, 22 and 23, Plan No. 410, designated as Parts 1, 2, 3, 4, 5, 6 and 7 on Reference Plan No. 22R-3635, Township of North Huron (formerly in the Town of Wingham), in the County of Huron.

Being the whole of PIN 41053-0005 (LT)

C. Licensed Properties:

1. Wallace Avenue South, Perth, Ontario (Shaw Building).

Firstly:

Lots 100 and 101, Plan 194, South Side of Clayton Street East (formerly Alma Street); Lots 104 and 106, Plan 194, East Side of Wallace Avenue South (formerly Mill Street); Part of Lot 102, Plan 194, South Side of Clayton Street East (formerly Alma Street); Part of Lots 105 and 107, Plan 194, West Side of Wellington Avenue South (formerly Wellington Street) as in Instrument No. R76335, lying North of Part 2 on Plan No. 44R4247, Town of North Perth, County of Perth.

Being the whole of PIN 53022-0070 (LT)

Secondly:

Lots 1 and 2, Plan 195, and Parts of Lots 3, 8, 9 and 10, Plan 195, as in Instrument No. R76335, lying South of Part 2 on Plan No. 44R4247, Town of North Perth, County of Perth.

Being the whole of PIN 53022-0072 (LT)

2. 275 Elma Street West, North Perth, Ontario (Malcolm Building)

Lots 50, 60 and 61, Part of Block A, Parts of Lots 51, 59 and 62, Plan 148, Part of Lot 6, Plan 162, being Part 5 on Plan No. 44R1690; SAVE AND EXCEPT Part 1 on Plan No. 44R3089, Town of North Perth, County of Perth.

Being the whole of PIN 53023-0053 (LT)

Schedule 8.1(f)
Outstanding Defaults

NIL

Schedule 8.1(g)
Litigation

NIL

Schedule 8.1(i)
Adverse Events

See Attached.

Schedule 8.1(q)
Corporation Structure, Locations, etc.

(i) The full and correct name (including any French and English forms of name) of the Credit Parties are as follows:

1. Spinrite Limited Partnership;
2. Spinrite Corp. (formerly 3096487 Nova Scotia Company);
3. Spinrite Holding Limited Partnership;
4. Spinrite GP Inc.;
5. Spinrite Trust; and
6. Spinrite Income Fund.

The ownership of the securities of the Credit Parties is listed below:

	Credit Party	Number and Class of Securities	Owner of Securities
1.	Spinrite Limited Partnership	32,305 Ordinary units	(i) Spinrite GP Inc: 10 Ordinary units (ii) Spinrite Holding LP: 32,295 Ordinary units
2.	Spinrite Corp. (formerly 3096487 Nova Scotia Company)	1 common share	Spinrite Limited Partnership: 100%
3.	Spinrite GP Inc.	100 common shares	Spinrite Trust: 100 %
4.	Spinrite Holding Limited Partnership;	(a) 20,291, 200 Ordinary Holding LP units; (b) 5,072, 800 Subordinated Holding LP units	(i) Spinrite Trust: 100% of Ordinary Holding LP units; and (ii) 3096498 Nova Scotia Company, 3096488 Nova Scotia Company, 3091784 Nova Scotia Company, 3091785 Nova Scotia Company. 1647052 Ontario Limited (formerly 1287356 Ontario Inc.), 1620030 Ontario Limited, 1620031 Ontario Limited, 1620006 Ontario Limited, 1620005 Ontario Limited, 1620004

			Ontario Limited and 1619914 Ontario Limited: 100% of Subordinated Holding LP units
5.	Spinrite Trust	2,029,120 trust units	Spinrite Income Fund
6.	Spinrite Income Fund	20,298,700 Fund Units	Public

- (ii) The jurisdictions in which each Credit Parties' chief executive office is located in the Province of Ontario except in the case of Spinrite Corp. (formerly 3096487 Nova Scotia Company) which has its chief executive office in the State of New York.
- (iii) All material places of business, material property and material number of employees of the Credit Parties are located in Ontario. The Borrower holds material assets in the State of New York subject to the limitations set out in the Credit Agreement.
- (iv) There are no subsidiaries of the Credit Parties other than those listed in section (i), above.

Schedule 8.1(r)
Environmental Disclosure

NIL

Schedule 8.1(t)
Intellectual Property

SPINRITE LIMITED PARTNERSHIP

Trademarks (Registered and Applications)

<u>Country</u>	<u>Trade-mark</u>	<u>Registration Number</u>
CANADA	ALLURE	TMA638,849
	ARCTIC	TMA297,602
	BABY BOUCLE	TMA662,265
	BABY COORDINATES	TMA662,270
	BABY SOFT	TMA638,588
	BE MINE, Formalized	1,241,609
	BERELLA	TMA194,212
	BERNAT	TMA502,212
	BERNAT BLING BLING	TMA651,021
	BERNATIZED	TMA123,392
	BISON BLANC: Design	TMA311,984
	BOUQUET	UCA24,053
	BOUQUET	TMA462,363
	BOUQUET & Design	TMA166,619
	"CARNIVAL"	UCA23,655
	CHA CHA	TMA639,009
	CHARO, Allowed	1,241,610
	CI CI	TMA651,042
	CRAFTISANAT	TMA220,230
	DIVINE	TMA638,612
	DYNASTY	TMA410,057
	EAGLE DESIGN	TMA401,977
	FAB FUR, Allowed	1,221,746
	FIRST CHOICE	TMA456,298
	FRENZY	TMA638,691
	GALAXY	1,221,750
	GLITTALLIC	TMA661,951
	GLOUCESTER	TMA344,065
	GOOD SHEPHERD & Design	TMA397,821
	GOOD SHEPHERD & Design	TMA397,820
	GOOD SHEPHERD Design	TMA407,700

Country	Trade-mark	Registration Number
	HANDICRAFTER	TMA139,235
	HANDICRAFTER	TMA460,095
	IRISH MIST	TMA270,719
	KOUNTRY KABLED KOTTON	TMA472,951
	LACETTE	TMA661,960
	LILY, Formalised	1,304,548
	LILY & Design, Formalised	1,304,549
	LION & Design	TMA123,398
	LUXEFFECTS, Allowed	1,251,078
	MERIT	TMA638,839
	NAKINA	TMA296,423
	NANTUK	TMA140,321
	NICE 'N SOFT	TMA397,286
	PHENSPUN	TMA218,395
	POLAR	TMA114,759
	POT-O-GOLD	TMA140,313
	POOCH, Allowed	1,241,615
	PHENTEX	TMA392,903
	PHENTEX DESIGN	TMA404,846
	PHENTEX & DESIGN	TMA155,071
	SATIN	1,220,835
	SILVERLASH	TMA661,949
	SOFTTEE	TMA358,616
	SOFTTEE BABY	TMA662,044
	SOFT BOUCLE	1,220,830
	SOLO	TMA639,242
	SPINDLECRAFT	TMA157,072
	SPINNING WHEEL	TMA155,310
	SPINNING WHEEL YARNS & Design	TMA155,320
	SPINRITE	TMA672,788
	SUGAR 'N CREAM	TMA481,382
	TABRIZ	TMA250,380
	THE YARN MILL	TMA170,859
	WHITE BUFFALO	TMA161,267
	WHITE BUFFALO & Design	TMA637,982
	WHITE BUFFALO	TMA628,730
	WHITE BUFFALO & Design	TMA304,624

Country	Trade-mark	Registration Number
	WHITE BUFFALO & Design	TMA307,461
JAPAN	WHITE BUFFALO (Class 15)	1,504,498
UNITED STATES	ALLURE	3152832
	BABY BOUCLE	3074891
	BABY BRITE	1475015
	BABY COORDINATES	3116094
	BEAR	78613403
	BE MINE	78599906
	BERELLA 4	1,034,354
	BERNAT	765,926
	BERNAT	840,552
	BERNAT	3147844
	BIG DEAL	1,995,674
	BOUQUET	2,126,513
	CHA CHA	3070323
	CI CI	78562756
	DIVINE	3119239
	FIRST CHOICE	2,314,332
	FRENZY	3092343
	GALAXY	3070324
	GLITTALLIC	78742569
	GRACE	3070322
	HANDICRAFTER	764,725
	HANDICRAFTER	2,163,053
	LACETTE	78742585
	LILY	237,163
	LILY	3167823
	LUXEFFECTS	78613388
	MERIT	3011270
	NICE 'N SOFT	1,846,241
	PHENTEX	843,753
	PHENTEX & DESIGN	843,754
	POOCH	78599948
	SATIN	3033265

<u>Country</u>	<u>Trade-mark</u>	<u>Registration Number</u>
	SILVERLASH	78742579
	SOFT BOUCLE	3074892
	SPINDLECRAFT	1,685,366
	SUGAR 'N CREAM	78960604
	ULTRA-SOFT	1,806,759

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