

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**MOTION RECORD  
(Returnable November 13, 2014)**

November 6, 2014

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# INDEX

**INDEX**

**TAB**

Notice of Motion dated November 6, 2014 .....1

    Draft Order .....A

Affidavit of Garth Wheldon sworn on November 5, 2014 .....2

    Exhibit “A” – Initial Order dated May 30, 2014 .....A

    Exhibit “B” – SISP Order dated June 25, 2014 .....B

    Exhibit “C” – Approval and Vesting Order dated August 5, 2014.....C

    Exhibit “D” – Interim Distribution Order dated September 16, 2014 .....D

    Exhibit “E” – Pre-Filing Report dated May 29, 2014.....E

    Exhibit “F” – First Report dated June 24, 2014.....F

    Exhibit “G” – Second Report dated July 25, 2014 .....G

    Exhibit “H” – Supplement to the Second Report dated July 31, 2014 .....H

    Exhibit “I” – Third Report dated September 11, 2014 .....I

    Exhibit “J” – Settlement Agreement and Mutual Release dated September 17, 2014 .....J

    Exhibit “K” – Affidavit of George Koulakian sworn May 28, 2014.....K

**TAB 1**



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

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

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

**NOTICE OF MOTION  
(Returnable November 13, 2014)**

KK Precision Inc. (the "**Company**" or "**KKP**") will make a motion to a Judge presiding over the Ontario Superior Court of Justice (Commercial List) (the "**Court**") on November 13, 2014 at 10:00 a.m., or as soon after that time as the motion can be heard at 330 University Avenue, Toronto, Ontario.

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

**THE MOTION IS FOR:**

1. An Order, substantially in the form of the draft order attached hereto as Schedule "A", *inter alia*:
  - (a) abridging the timing and validating the method of service of this Notice of Motion and Motion Record such that the Motion is properly returnable on November 13, 2014, and dispensing with further service thereof;
  - (b) approving the report of Richter Advisory Group Inc. ("**Richter**") in its capacity as proposed monitor dated May 29, 2014 (the "**Pre-Filing Report**"), the first report of Richter as the Court-appointed monitor of the Company (in such capacity, the "**Monitor**") dated June 24, 2014 (the "**First Report**"), the second report of the Monitor dated July 25, 2014 (the "**Second Report**"), the supplement to the

Second Report of the Monitor dated July 31, 2014 (the “**Supplemental Report**”), the third report of the Monitor dated September 11, 2014 (the “**Third Report**”), the fourth report of the Monitor dated November 6, 2014 (the “**Fourth Report**”), and the activities of Richter and the Monitor as set out therein;

- (c) approving the professional fees and disbursements of the Monitor and legal counsel to the Monitor, Chaitons LLP, including an accrual of fees and disbursements to be incurred to the completion of these proceedings (the “**CCAA Proceedings**”);
- (d) approving the settlement agreement and mutual release between the Company and 2215225 Ontario Inc. (the “**Landlord**”) dated September 17, 2014 (the “**Settlement Agreement and Release**”);
- (e) vesting in Rolls Royce Canada Limited (“**Rolls Royce**”) the Company’s right, title and interest in, if any, and to:
  - (i) the tooling for the manufacture of Rolls Royce component parts by the Company, as listed on Schedule “A” of the draft order attached hereto (collectively, the “**Rolls Royce Tooling**”), and
  - (ii) the intellectual property related to the manufacture of Rolls Royce component parts by the Company, as listed on Schedule “B” of the draft order attached hereto (the “**Rolls Royce IP**”);
- (f) authorizing and directing the Company and the Monitor to distribute, without further order of this Court, all funds held by the Company or the Monitor in trust including, without limitation, all of the proceeds received pursuant to the liquidation services agreement between the Company and Infinity Asset Solutions Inc. (“**Infinity**”), dated July 25, 2014 (the “**LSA**”) which have not been previously distributed in accordance with the order of The Honourable Mr. Justice Penny, made September 16, 2014 as follows:

- (i) first, to satisfy any claims secured by the Administration Charge granted by order of The Honourable Mr. Justice Wilton-Siegel, made May 30, 2014 (the "**Initial Order**");
  - (ii) second, to satisfy any claims secured by the Directors' Charge, if any, granted by the Initial Order;
  - (iii) third, a payment, as set out in the Fourth Report, to the Monitor to be held in trust and to satisfy any expenses; and
  - (iv) lastly, the remaining funds to Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of the Company (the "**Secured Lenders**");
- (g) terminating the Administration Charge and the Directors' Charge upon the filing by the Monitor with this Court of a certificate certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed to the satisfaction of the Monitor (the "**Monitor's Discharge Certificate**");
- (h) terminating the CCAA Proceedings upon the filing of the Monitor's Discharge Certificate with this Court;
- (i) discharging Richter as Monitor and releasing Richter from any and all liability that Richter has or may hereafter have by reason of, or in any way arising out of, the acts or omissions of Richter while acting in its capacity as Monitor upon the filing of the Monitor's Discharge Certificate with this Court;
- (j) approving and authorizing the destruction of any records relating to the business of the Company that are more than 7 years old; and
- (k) unsealing the materials filed with the Court pursuant to the Initial Order and the SISP Order (defined below);
2. Such further and other relief as this Honourable Court may deem just.

**THE GROUNDS FOR THE MOTION ARE:**

*CCAA PROCEEDINGS*

1. On May 30, 2014, the Court issued the Initial Order granting the Company protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter was appointed as Monitor. The Initial Order provided the Company with, *inter alia*, a stay of proceedings (the "**Stay Period**") until June 29, 2014;
2. During the month of June 2014, the Company entered into various accommodation agreements with Rolls Royce, Pratt & Whitney Canada Corp. and Siemens Energy Inc. (collectively, the "**Accommodation Agreements**"). KKP has completed all of the work pursuant to the Accommodation Agreements, subject to obtaining the vesting order in favour of Rolls Royce (discussed below);
3. On June 25, 2014, this Honourable Court granted an order (the "**SISP Order**") which extended the Stay Period, as defined in the Initial Order until September 19, 2014 and approved the Solicitation Process (as such term is defined in the SISP Order). The Company has conducted the Solicitation Process pursuant to the SISP Order with the assistance of the Monitor;
4. Pursuant to the SISP Order, the Company entered into the LSA with Infinity. On August 5, 2014, the LSA and the transaction contemplated therein were approved by this Court;
5. The transaction contemplated by the LSA has been completed and the Assets (as such term is defined therein) have been transferred to Infinity;
6. On September 16, 2014 the Court extended the Stay Period until November 28, 2014 and ordered an interim payment to the Secured Lenders subject to a holdback for the Company to deal with certain unresolved issues with the Landlord (discussed below);
7. The primary revenue generating operations of the Company have ceased and the Company no longer requires protection from its creditors granted by the Initial Order;

8. The Company has acted in good faith and with due diligence during the duration of the CCAA Proceedings;
9. The Company and the Monitor have duly complied with their obligations and carried out their responsibilities under the CCAA, the Accommodation Agreements, the Settlement Agreement and Release and the Orders granted by this Honourable Court in these CCAA Proceedings, including the Initial Order, and the SISP Order;
10. Subject to completing the aforementioned tasks, including making the aforementioned payments the CCAA Proceedings will be complete completed and a discharge of the Monitor will be appropriate;

*SETTLEMENT AGREEMENT AND RELEASE*

11. During the course of the CCAA Proceedings the Landlord raised issues relating to the repair of the leased premises municipally known as 104 Oakdale Ave. (the “**Premises**”);
12. On September 17, 2014, the Company and the Landlord entered into the Settlement Agreement and Release which settled all of the outstanding issues between the Company and the Landlord. The Company vacated the Premises as of September 30, 2014;

*VESTING ORDER*

13. KKP has completed all of the work pursuant to the Accommodation Agreements. As a result, KKP has either collected or is currently collecting on the accounts receivable generated in connection with the Accommodation Agreements;
14. In order to finalize all of the activities associated with the Accommodation Agreements, the Company must seek a vesting order in accordance with sub-section 4 (c) of the accommodation agreement with Rolls Royce dated May 26, 2014 (the “**Rolls Royce Accommodation Agreement**”);
15. The vesting order will vest all of the Company’s right, title and interest, if any, in and to the Rolls Royce Tooling and Rolls Royce IP in Rolls Royce subject to Rolls Royce

having made the KKP Tooling Payment (as such term is defined in the Rolls Royce Accommodation Agreement) free and clear of any encumbrances or third-party rights;

16. The KKP Tooling Payment has been made, and such payment is being held by the Monitor in trust pending the Company obtaining the vesting order;

*DISTRIBUTION*

17. It is appropriate at this time to make a final distribution of the proceeds from the estate of the Company;
18. Pursuant to the Administration Charge granted in the Initial Order, KKP intends to pay, pending approval of this Honourable Court, those amounts which remain outstanding to the Monitor, Monitor's Counsel and Company's Counsel in priority to all other creditors of the Company, including the Secured Lenders, up to a maximum amount of \$250,000;
19. The Company also intends to make any outstanding payments, if any, pursuant to the Directors' Charge granted in the Initial Order up to a maximum amount of \$100,000;
20. The Company intends to make a payment to the Monitor, in the amount as set out in the Fourth Report, to be held in trust and to satisfy any expenses prior to distributing the remainder of the funds held in the estate;
21. The Monitor's counsel has conducted an independent security review of the Secured Lenders' security and determined same to be valid and enforceable. The funds remaining in the estate following the payment of the Court ordered Administration Charge and Directors' Charge will be insufficient to completely repay the Secured Lenders in full. Therefore, the entirety of the remainder of the funds in the estate shall be distributed to the Secured Lenders;

*RECORDS RETENTION*

22. In keeping with the standard practice of the Company, the Company is seeking that the Court authorize and approve the destruction of any records relating to the business of the Company that are more than 7 years old;

*UNSEALING DOCUMENTS FILED WITH THE COURT*

23. Pursuant to the Initial Order and SISP Order, this Honourable Court ordered the sealing of certain documents which contained commercially sensitive information pending further order of the Court. It is no longer necessary for that information to be kept confidential and out of the public record;
24. The Company is requesting that all of the documents previously sealed with the Court during the course of the CCAA Proceedings are unsealed;

*GENERAL*

25. The facts and circumstances as described in the Pre-Filing Report, the First Report, the Second Report, the Supplemental Report, the Third Report and the Fourth Report;
26. The Monitor supports the proposed relief;
27. All other known creditors affected by the order are being given notice of this motion;
28. The provisions of the CCAA;
29. The *Rules of Civil Procedure* (Ontario) including Rules 1.04, 1.05, 2.03, 3.02, 16 and 37; and
30. Such further and other grounds as counsel may advise and this Honourable Court may permit.

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

31. The affidavit Garth Wheldon sworn November 5, 2014, and the attached exhibits;
32. The Pre-Filing Report, the First Report, the Second Report, the Supplemental Report and the Third Report, filed;
33. The Fourth Report, to be filed separately;

34. The affidavit of A. Adessky sworn November 6, 2014, to be filed with the Fourth Report;
35. The affidavit of Harvey Chaiton sworn November 5, 2014, to be filed with the Fourth Report; and
36. Such further and other materials as counsel may advise and this Honourable Court may permit.

November 6, 2014

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**TO: SERVICE LIST**



**TAB A**

**SCHEDULE "A"**  
**DRAFT ORDER**

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

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

THE HONOURABLE ●	)	THURSDAY, THE 13 <sup>th</sup> DAY
	)	
JUSTICE ●	)	OF NOVEMBER, 2014

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

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

**ORDER**

**THIS MOTION** made by the applicant, KK Precision Inc. ("**KKP**" or the "**Company**"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), for an order, among other things:

- (i) abridging the time for service of the Notice of Motion and related materials and validating service of same;
- (ii) approving the report of Richter Advisory Group Inc. ("**Richter**") in its capacity as proposed monitor dated May 29, 2014 (the "**Pre-Filing Report**"), the first report of of Richter as the Court-appointed monitor of the Company (in such capacity, the "**Monitor**") dated June 24, 2014 (the "**First Report**"), the second report of the Monitor dated July 25, 2014 (the "**Second Report**"), the supplement to the Second Report of the Monitor dated July 31, 2014 (the "**Supplemental Report**"), the third report of the Monitor dated September 11, 2014 (the "**Third Report**"), the fourth report of the Monitor dated November 6, 2014 (the "**Fourth Report**"), and the activities of Richter and the Monitor as set out therein;

- (iii) approving the professional fees and disbursements of the Monitor and legal counsel to the Monitor, Chaitons LLP, including an accrual of fees and disbursements to be incurred to the completion of these proceedings (the "**CCAA Proceedings**");
- (iv) approving the settlement agreement and mutual release between the Company and 2215225 Ontario Inc. dated September 17, 2014 (the "**Settlement Agreement and Release**");
- (v) vesting in Rolls Royce Canada Limited ("**Rolls Royce**") the Company's right, title and interest in, if any, and to:
  - a. the tooling as listed on **Schedule 'A'** attached hereto for the manufacture of Rolls Royce component parts by the Company (collectively, the "**Rolls Royce Tooling**"), and
  - b. the intellectual property related to the manufacture of Rolls Royce component parts by the Company as listed on **Schedule 'B'** attached hereto (the "**Rolls Royce IP**");
- (vi) authorizing and directing the Company and the Monitor to distribute, without further order of this Court, all funds held by the Company or the Monitor in trust including, without limitation, all of the proceeds received pursuant to the liquidation services agreement between KKP and Infinity Asset Solutions Inc., dated July 25, 2014 (the "**LSA**") which have not been previously distributed in accordance with the order of The Honourable Mr. Justice Penny, made September 16, 2014 as follows:
  - a. first, to satisfy any claims secured by the Administration Charge granted by order of The Honourable Mr. Justice Wilton-Siegel, made May 30, 2014 (the "**Initial Order**");
  - b. second, to satisfy any claims secured by the Directors' Charge, if any, granted by the Initial Order;

- c. third, a payment, as set out in the Fourth Report, to the Monitor to be held in trust and to satisfy any expenses; and
- d. lastly, the remaining funds to Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of the Company (the “**Secured Lenders**”);
- (vii) terminating the Administration Charge and the Directors’ Charge upon the filing by the Monitor with this Court of a certificate certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed to the satisfaction of the Monitor (the “**Monitor's Discharge Certificate**”);
- (viii) terminating the CCAA Proceedings upon the filing of the Monitor's Discharge Certificate with this Court;
- (ix) discharging Richter as Monitor and releasing Richter from any and all liability that Richter has or may hereafter have by reason of, or in any way arising out of, the acts or omissions of Richter while acting in its capacity as Monitor upon the filing of the Monitor's Discharge Certificate with this Court;
- (x) approving and authorizing the destruction of any records relating to the business of the Company that are more than 7 years old; and
- (xi) unsealing of materials filed with this Court pursuant to the Initial Order and the Order granted by this Court on June 25, 2014,

was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the affidavit Garth Wheldon sworn November 5, 2014 (the “**Wheldon Affidavit**”), the Pre-Filing Report, the First Report, the Second Report, the Supplemental Report, the Third Report, and the Fourth Report, the affidavit of A. Adessky sworn November 6, 2014 (the “**Richter Fee Affidavit**”), the affidavit Harvey Chaiton sworn November 5, 2014 (the “**Chaitons Fee Affidavit**”) and on hearing the submissions of counsel for the Company, the Monitor and the Secured Lenders, no one appearing for any other person on the service list, although properly served as appears from the affidavit of ● sworn November ●, 2014, filed:

## **SERVICE**

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

## **APPROVAL OF ACTIVITIES AND PROFESSIONAL FEES**

2. **THIS COURT ORDERS** that the Pre-Filing Report, the First Report, the Second Report, the Supplemental Report, the Third Report, and the Fourth Report, each filed in the within CCAA Proceedings, and the actions, conduct and activities of Richter and the Monitor as described therein, be and are hereby approved.

3. **THIS COURT ORDERS AND DECLARES** that Richter has duly and properly discharged and performed its obligations, liabilities, responsibilities and duties in its capacity as Monitor pursuant to the Initial Order, any other Order of this Court in the within CCAA Proceedings, the CCAA or otherwise, subject to the completion of the outstanding administrative matters described in the Fourth Report and the Wheldon Affidavit.

4. **THIS COURT ORDERS** that the fees and disbursements of the Monitor and its legal counsel, Chaitons LLP, as each are set out in the Richter Fee Affidavit and the Chaitons Fee Affidavit respectively, be and are hereby approved.

5. **THIS COURT ORDERS** that a fee accrual in the amount of \$●, exclusive of applicable HST, for estimated fees and disbursements of the Monitor and its legal counsel, Chaitons LLP, for the period from ●, 2014 to the termination of the CCAA Proceedings, be and is hereby approved.

## **SETTLEMENT AND MUTUAL RELEASE**

6. **THIS COURT ORDERS AND DECLARES** that the Settlement Agreement and Release and the transaction contemplated therein is hereby approved, and the terms of the

Settlement Agreement and Release and the consideration set out in the Settlement Agreement and Release are fair and commercially reasonable and were arrived at in a commercially reasonable manner.

### **VESTING OF ASSETS**

7. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Monitor's certificate to Rolls Royce substantially in the form attached as **Schedule "C"** hereto (the "**Monitor's Tooling and IP Certificate**"), all of the Company's right, title and interest in, if any, and to the Rolls Royce Tooling for the manufacture of the Rolls Royce component parts and the Rolls Royce IP, shall vest absolutely in Rolls Royce, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Initial Order; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the "**Encumbrances**").

8. **THIS COURT ORDERS AND DIRECTS** the Monitor to file with the Court a copy of the Monitor's Tooling and IP Certificate, forthwith after delivery thereof.

### **DISTRIBUTION OF PROCEEDS**

9. **THIS COURT ORDERS AND DIRECTS** the Company and the Monitor to distribute, without further order of this Court, all funds held by the Company or held by the Monitor in trust including, without limitation, all of the proceeds received pursuant to the LSA as follows:

- (a) first, to satisfy any claims secured by the Administration Charge granted by the Initial Order;
- (b) second, to satisfy any claims secured by the Directors' Charge, if any, granted by the Initial Order;
- (c) third, a payment of \$● to the Monitor to be held in trust and to satisfy any expenses; and

(d) lastly, the remaining funds to the Secured Lenders.

**MONITOR'S DISCHARGE AND TERMINATION OF CCAA PROCEEDINGS**

10. **THIS COURT ORDERS** that, upon the filing by the Monitor of the Monitor's Discharge Certificate substantially in the form attached as **Schedule "D"** hereto certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed to the satisfaction of the Monitor:

- (a) Richter be and is hereby discharged and relieved from any further obligations, liabilities, responsibilities or duties in its capacity as Monitor pursuant to the Initial Order, any other Order of this Court in the within the CCAA Proceedings, the CCAA or otherwise;
- (b) the Administration Charge and the Directors' Charge (as both are defined in, and established by, the Initial Order) be and are hereby terminated, released and discharged; and
- (c) the CCAA Proceedings be and are hereby terminated.

11. **THIS COURT ORDERS** that, in addition to the protections in favour of the Monitor as set out in the Initial Order, any other Order of this Court or reasons provided by this Court in the within the CCAA Proceedings, or the CCAA, the Monitor shall not be liable for any act or omission on the part of the Monitor, including with respect to any reliance thereof, including, without limitation, with respect to any information disclosed, any act or omission pertaining to the discharge of the Monitor's duties in the CCAA Proceedings or with respect to any other duties or obligations of the Monitor under the CCAA or otherwise, save and except for any claim or liability arising out of any gross negligence or willful misconduct on the part of the Monitor. Subject to the foregoing and in addition to the protections of the Monitor as set out in the Orders of this Court or any reasons provided by this Court in the CCAA Proceedings and the CCAA, any claims against Richter in connection with the performance of its duties as Monitor are hereby released, stayed, extinguished and forever barred and the Monitor shall have no liability in respect thereof.

12. **THIS COURT ORDERS** that no action or other proceeding shall be commenced against Richter in any way arising from or related to its capacity or conduct as Monitor except with prior leave of this Court and on seven (7) days' prior written notice to Richter and upon further order securing, as security for costs, the full indemnity costs of the Monitor in connection with any proposed action or proceeding as the Court hearing the motion for leave to proceed may deem just and appropriate.

13. **THIS COURT ORDERS** that, notwithstanding any provision of this Order, nothing contained in this Order shall affect, vary, derogate from or amend any of the rights, approvals and protections in favour of the Monitor pursuant to the Initial Order, any other Order of this Court or reasons provided by this Court in the CCAA Proceedings, the CCAA or otherwise, all of which are expressly continued and confirmed.

#### **RECORDS RETENTION**

14. **THIS COURT ORDERS AND DECLARES** that the destruction of any records relating to the business of the Company that are more than 7 years old, be and is hereby approved.

#### **SEALING ORDERS**

15. **THIS COURT ORDERS** that the provisions of the Initial Order and the Order granted by this Court on June 25, 2014 dealing with the sealing of materials filed with this Court (the "**Sealing Orders**") are hereby vacated, and the materials sealed by the Sealing Orders are hereby unsealed.



**GENERAL**

16. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada and the United States or any other country to give effect to this Order and to assist the Company, the Monitor or their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Company and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Company, the Monitor or their respective agents in carrying out the terms of this Order.

---

**SCHEDULE "A"**  
**ROLLS ROYCE TOOLING**

KKF-10231	MILLING FIXTURE	YM11918
KKF-10237	T/M FIXTURE	TRN14779
KKF-10246	T/M FIXTURE-TRAN14779-1	TRN14779
KKF-10259	Assembly tool for bearing installation	TRN101927
N/A	Turning Fixture	TRN15327-op20
N/A	Turning Fixture	TRN15327-op80
N/A	Turning Fixture	LW102158
KKF-10010	MF	TRN101025
KKF-10014	General Tooling	TRN16097
KKF-10032	Polishing Fixt	TRN17598
KKF-10130	Turning Fixture	TRN14694
KKF-10108	Milling Fixture	TRN101682
	Slitting	TRN15566 & TRN14820
	80 Duplicate fixture	TRN15267
	Plasm Turn Ring Fictures	TRN15566
	Milling Tooling for Aerofolis	TRN14640

**SCHEDULE "B"**  
**ROLLS ROYCE IP**

For each part number:

- All CNC programs and source files and models
- All tooling lists and associated documentation and set up sheets and drawings
- KK Precision internal routing including operation times, operation sheets and source files
- Detailed methodology and process management (including distortion management where appropriate) and detail on sub
- Quality history, control plans and visual instructions
- Process history

## SCHEDULE "C"

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

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

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

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

### **MONITOR'S TOOLING AND IP CERTIFICATE**

#### **RECITALS**

- A. Pursuant to an Order of The Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated May 30, 2014, KK Precision Inc. ("**KKP**" or the "**Company**") was granted relief under the *Companies' Creditors Arrangement Act* and Richter Advisory Group Inc. ("**Richter**") was appointed as the Monitor of the Company (the "**Monitor**").
- B. Pursuant to an Order of the Court dated May 30, 2014, the Court approved the accommodation agreement dated May 26, 2014 (the "**Rolls Royce Accommodation Agreement**") between the Company and Rolls-Royce Canada Limited, Rolls-Royce Power Engineering Plc. (together with Rolls-Royce Canada Limited, "**Rolls Royce**"), Bank of Montreal and BMO Capital Partners and provided for the vesting in Rolls Royce of the Company's right, title and interest in, if any, and to the tooling as listed on Schedule 'A' (collectively, the "**Rolls Royce Tooling**") to the Order of the Honourable Justice • dated November 13, 2014 (the "**November 13 Order**"), and the intellectual property related to the manufacture of Rolls Royce component parts by the Company as listed on Schedule 'B' to the November 13 Order (the "**Rolls Royce IP**"), which vesting with respect to the Rolls Royce IP is to be effective upon the receipt of the IP Purchase Price and which vesting with respect to the Rolls Royce Tooling is to be effective (i)

upon the delivery by the Monitor to Rolls Royce of a certificate confirming the payment by Rolls Royce of the KKP Tooling Payment and (ii) the transaction contemplated by the Rolls Royce Accommodation Agreement has been completed to the satisfaction of the Monitor.

- C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Rolls Royce Accommodation Agreement and the order of Justice Wilton-Siegel, made May 30, 2014.

**THE MONITOR CERTIFIES** the following:

1. Rolls Royce has paid the IP Purchase Price for the IP Assets and the KKP Tooling Payment for the KKP Tooling payable on the Closing Date pursuant to the Royce Accommodation Agreement;
2. The conditions to Closing as set out in the Royce Accommodation Agreement have been satisfied or waived by the Company and Rolls Royce; and
3. The transaction as set out in the Rolls Royce Accommodation Agreement has been completed to the satisfaction of the Monitor.
4. This Certificate was delivered by the Monitor at \_\_\_\_\_ on November \_\_\_\_\_, 2014.

Richter Advisory Group Inc., in its capacity as the Court-appointed monitor of the KK Precision Inc., and not in its corporate or personal capacity

Per: \_\_\_\_\_

Name:

Title:

**SCHEDULE "D"**

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**MONITOR'S DISCHARGE CERTIFICATE**

**RECITALS**

- A. Pursuant to an Order of The Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated May 30, 2014, KK Precision Inc. ("**KKP**" or the "**Company**") was granted relief under the *Companies' Creditors Arrangement Act* and Richter Advisory Group Inc. ("**Richter**") was appointed as the Monitor of the Company (the "**Monitor**").
- B. Pursuant to an Order of this Court dated November 30, 2014 (the "**CCAA Termination Order**"), Richter was discharged as Monitor of the Company to be effective upon the filing by the Monitor of this certificate with this Court certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed to the satisfaction of the Monitor.
- C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the CCAA Termination Order.

**THE MONITOR CERTIFIES** that all matters to be attended to in connection with the CCAA Proceedings have been completed to the satisfaction of the Monitor.

This Certificate was delivered by the Monitor at \_\_\_\_\_ on November \_\_\_\_\_, 2014.

Richter Advisory Group Inc., in its capacity as the Court-appointed monitor of the KK Precision Inc., and not in its corporate or personal capacity

Per: \_\_\_\_\_

Name:

Title:

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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**NOTICE OF MOTION**  
(Returnable November 13, 2014)

**DENTONS CANADA LLP**

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Toronto-Dominion Centre  
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*Lawyers for the Company*



**TAB 2**

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

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

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

APPLICANT

**AFFIDAVIT OF GARTH WHELDON  
(Sworn November 5, 2014)**

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

1. I am a managing director of MVM Industrial Services Limited, which is a third party providing consulting services to KK Precision Inc. (the "**Company**" or "**KKP**") pursuant to a Court-approved advisory services agreement, and as such, I have personal knowledge of the matters to which I hereinafter deposed to, except where stated to be based on information and belief, in which case I verily believe the same to be true.
2. This affidavit is sworn in support of KKP's motion, returnable November 13, 2014 (the "**Motion**"), for relief which includes the following:
  - (a) abridging the time for service of the Notice of Motion and the supporting materials and validating service of same;
  - (b) approving the report of Richter Advisory Group Inc. ("**Richter**") in its capacity as proposed monitor dated May 29, 2014 (the "**Pre-Filing Report**"), the first report of Richter as the Court-appointed monitor of the Company (in such capacity, the "**Monitor**") dated June 24, 2014 (the

“**First Report**”), the second report of the Monitor dated July 25, 2014 (the “**Second Report**”), the supplement to the Second Report of the Monitor dated July 31, 2014 (the “**Supplemental Report**”), the third report of the Monitor dated September 11, 2014 (the “**Third Report**”), the fourth report of the Monitor dated November 6, 2014 (the “**Fourth Report**”), and the activities of Richter and the Monitor as set out therein;

- (c) approving the professional fees and disbursements of the Monitor and legal counsel to the Monitor, Chaitons LLP, including an accrual of fees and disbursements to be incurred to the completion of these proceedings (the “**CCAA Proceedings**”);
- (d) approving the settlement agreement and mutual release between the Company and 2215225 Ontario Inc. (the “**Landlord**”) dated September 17, 2014 (the “**Settlement Agreement and Release**”);
- (e) vesting in Rolls Royce Canada Limited (“**Rolls Royce**”) the Company’s right, title and interest, if any, in and to the tooling for the manufacture of Rolls Royce component parts by the Company, as listed on Schedule “F” of the Accommodation Agreement (defined below) with Rolls Royce and and such additional tooling listed on Schedule ‘A’ attached hereto, and the intellectual property related to the manufacture of the Rolls Royce component parts by the Company, as listed on Schedule “E”;
- (f) authorizing and directing the Company and the Monitor to distribute, without further order of this Court, all funds held by the Company or the Monitor in trust including, without limitation, all of the proceeds received pursuant to the liquidation services agreement between the Applicant and Infinity Asset Solutions Inc. (“**Infinity**”), dated July 25, 2014 (the “**LSA**”) which have not been previously distributed in accordance with the order of The Honourable Mr. Justice Penny, made September 16, 2014 as follows:

- (i) first, to satisfy any claims secured by the Administration Charge granted by order of The Honourable Mr. Justice Wilton-Siegel, made May 30, 2014 (the "**Initial Order**");
  - (ii) second, to satisfy any claims secured by the Directors' Charge, if any, granted by the Initial Order;
  - (iii) third, a payment to the Monitor to be held in trust and to satisfy any expenses as set out in the Fourth Report; and
  - (iv) lastly, the remaining funds to the Bank of Montreal and BMO Capital Partners, in their capacity as secured creditors of the Company (the "**Secured Lenders**");
- (g) terminating the Administration Charge and the Directors' Charge upon the filing by the Monitor with this Court of a certificate certifying that all matters to be attended to in connection with these proceedings have been completed to the satisfaction of the Monitor (the "**Monitor's Discharge Certificate**");
- (h) terminating the CCAA Proceedings upon the filing of the Monitor's Discharge Certificate with this Court, and vacating those Orders (or any parts thereof) that seal materials filed with the Court (the "**Sealing Orders**");
- (i) discharging Richter as Monitor and releasing Richter from any and all liability that Richter has or may hereafter have by reason of, or in any way arising out of, the acts or omissions of Richter while acting in its capacity as Monitor upon the filing of the Monitor's Discharge Certificate with this Court;
- (j) approving and authorizing the destruction of any records relating to the business of the Company that are more than 7 years old; and
- (k) such further and other relief as this Honourable Court may deem just.

3. I have had the opportunity to review a draft of the Fourth Report, and I agree with the summaries and the recommendation contained therein.

### **BACKGROUND**

4. On May 30, 2014, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued the Initial Order granting the Company protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Initial Order, Richter was appointed as Monitor. The Initial Order provided the Company with, *inter alia*, a stay of proceedings (the “**Stay Period**”) until June 29, 2014. A copy of the Initial Order is attached to this affidavit as **Exhibit ‘A’**.

5. On June 25, 2014, this Honourable Court granted an Order which approved the solicitation process (the “**SISP Order**”) for all of the Company’s assets (the “**Assets**”). A copy of the SISP Order is attached to this affidavit as **Exhibit ‘B’**.

6. The SISP Order also, among other things, extended the Stay Period to September 19, 2014.

7. On August 5, 2014, this Honourable Court granted an order (the “**Approval and Vesting Order**”) which, *inter alia*, approved the LSA. A copy of the Approval and Vesting Order is attached hereto as **Exhibit ‘C’**.

8. On September 16, 2014, this Honourable Court granted an order (the “**Interim Distribution Order**”) which, *inter alia*, approved an interim distribution to the Secured Lenders, and authorized KKP to make such subsequent distributions to the Secured Lenders that the Company in consultation with the Monitor determined to be appropriate, subject to the Company maintaining a portion of the holdback to finalize the wind-down of its operations. A copy of the Interim Distribution Order is attached hereto as **Exhibit ‘D’**.

9. The Interim Distribution Order also, among other things, extended the Stay Period to November 28, 2014.

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

11. Additional details regarding the operations of the Company and the issues addressed since the commencement of these CCAA proceedings can be found in the Pre-Filing Report, the First Report, the Second Report, the Supplemental Report, and the Third Report. I have read each of the reports and I confirm that the information set out there in is true and accurate. True copies of the Pre-Filing Report, the First Report, the Second Report, the Supplemental Report and the Third Report are attached hereto as **Exhibits ‘E’, ‘F’, ‘G’, ‘H’ and ‘I’** respectively.

12. Any capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the First Report, Second Report and/or Third Report.

#### **Approval of the Settlement Agreement and Release**

13. During the course of the CCAA Proceedings the Landlord raised issues relating to the repair of the Premises.

14. On September 17, 2014 the Company and the Landlord entered into the Settlement Agreement and Release, which settled the outstanding issues between the Company and the Landlord. Attached hereto as **Exhibit ‘J’** is a true copy of the Settlement Agreement and Release.

15. The terms of the Settlement Agreement and Release were reached following good faith negotiations between the Landlord and KKP and were arrived at in a commercially reasonable manner. KKP and the Monitor both believe that the consideration set out in the Settlement Agreement and Release are fair and commercially reasonable.

16. The Company has complied with the terms of the Settlement Agreement and Release. The Premises were vacated as of September 30, 2014 and there are no obligations for the Company to repair or remediate the Premises that remain outstanding.

### **Termination of Proceedings**

17. At this point in time, the Company has completely wound down all of its operations.

18. The Company has a small number of ongoing activities which are limited to, final collections of a small amount of receivables, preparing and filing tax returns and the ongoing retention (or destruction) of Company records now in storage.

19. Therefore, a further extension of the Stay Period is no longer required. KKP has dealt with its primary creditors through the CCAA Proceedings and no longer requires protection from its creditors granted by the Initial Order pursuant to the CCAA.

20. The Company has duly complied with its obligations and carried out its responsibilities under the CCAA, the Accommodation Agreements (defined below), the Settlement Agreement and Release and the various Orders granted by this Honourable Court in these CCAA Proceedings, including the Initial Order, and the SISP Order.

21. The Company has acted in good faith and with due diligence throughout the CCAA Proceedings and believes it is in the best interests of KKP and its stakeholders to terminate the CCAA Proceedings.

### **Discharge of the Monitor**

22. In connection with the completion and termination of the CCAA Proceedings, I also confirm that a discharge of the Monitor is now appropriate.

23. The Monitor has duly complied with its obligations and carried out its responsibilities, if any, under the CCAA, the Accommodation Agreements, the Settlement Agreement and Release and the various Orders granted by this Honourable Court in these CCAA Proceedings, including the Initial Order, and the SISP Order.

### **Vesting Order**

24. During the month of June 2014, the Company entered into various accommodation agreements with Rolls Royce, Pratt & Whitney Canada Corp. and Siemens Energy Inc. (collectively, the “**Accommodation Agreements**”). KKP has completed all of the work pursuant to the Accommodation Agreements.

25. In order to finalize and satisfy the conditions of the Accommodation Agreements, the Company must seek a vesting order in accordance with sub-sections 4 (c) of the Accommodation Agreement between the Company, Bank of Montreal and Rolls Royce (the “**Rolls Royce Accommodation Agreement**”). A copy of the Rolls Royce Accommodation Agreement is sealed with the Court.

26. The vesting order will vest all of the Company’s right, title and interest, if any, in and to the KKP Tooling and Intellectual Property (as such terms are defined in the Rolls Royce Accommodation Agreement) in Rolls Royce subject to Rolls Royce having made the KKP Tooling Payment (as such term is defined in the Rolls Royce Accommodation Agreement) free and clear of any encumbrances or third-party rights.

27. The KKP Tooling Payment has been made by Rolls Royce to the Monitor, and such payment is being held by the Monitor in trust pending the Company obtaining the vesting order.

28. This Honourable Court has already approved the transaction contemplated by the Rolls Royce Accommodation Agreement on the terms set out therein. In order for the company to comply with the terms therein the Company is required to seek the requested vesting order in favor of Rolls Royce.

29. The Company believes, and the Monitor and the Secured Lenders support, that the granting of an order vesting the assets in Rolls Royce is in the best interests of the Company and its stakeholders.



**Final Distribution**

30. The Monitor is holding funds in trust for KKP as a result of the completion of the operations associated with the Accommodation Agreements and the completion of the transaction pursuant to the terms of the LSA with Infinity.

31. Details of the obligations to the Secured Lenders are set out in the affidavit of George Koulakian sworn May 28, 2014 filed in support of the Initial Order and attached hereto (without exhibits) as **Exhibit 'K'**.

32. In summary, the Company's obligations to the Secured Lenders are governed by the following agreements and other documents (collectively, the "**Credit Agreements**"):

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

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

34. According to the security review prepared by the Monitor's counsel, the Secured Lenders, being the primary secured creditors to KKP, have the first in time *Personal Property Security Act* (Ontario) (the "**PPSA**") registrations against the Company's assets.

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

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

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

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

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

39. On September 19, 2014 pursuant to the Interim Distribution Order, KKP made a payment to the Secured Lenders in the amount of \$6,000,000.00.

40. Given the cash which remains available for distribution, it is appropriate at this time to make payments in accordance with the charges granted pursuant to the Initial Order and to make a final distribution to the Secured Lenders, subject to a holdback (the “**Accrual Holdback**”) to be held in trust by the Monitor, to satisfy any expenses. The amount of the Accrual Holdback will be included in the Monitor

41. The Company’s estimate is that the Accrual Holdback amount would be a prudent and sufficient amount to retain from the proposed distribution to account for the expenses and the accrual of future expenses.

42. The funds remaining in the estate following the payment of the Court ordered Administration Charge and Directors' Charge will be insufficient to completely repay the Secured Lenders in full. Therefore, the Company, in consultation with the Monitor, believe that the entirety of the remainder of the funds in the estate should be distributed to the Secured Lenders.

43. The Company does not anticipate the Secured Lenders will have any issues with the proposed distribution.

**Miscellaneous**

44. The Company has historically kept records related to tax filings for a period of 7 years. In keeping with the standard practice of the Company, the Company is seeking that the Court authorize and approve the destruction of any records relating to the business of the Company that are more than 7 years old.

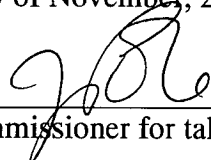
45. The Company believes that the retention of its records for 7 years is sufficient to meet any statutory obligations or any other potential requirements for those documents.

46. The destruction of any documents that are more than 7 years old will also reduce storage costs on a yearly basis going forward.

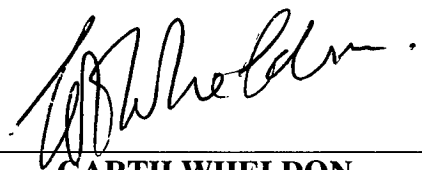
47. During the course of the CCAA Proceedings, the Company obtained Sealing Orders in order to protect certain sensitive commercial information. Given that the CCAA Proceedings are complete, the Company is seeking an Order vacating the Sealing Orders.

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

**SWORN** before me at the City of )  
Burlington, in the Province of Ontario, this )  
5<sup>th</sup> day of November, 2014 )



\_\_\_\_\_  
A commissioner for taking Affidavits



\_\_\_\_\_  
**GARTH WHELDON**

Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.

**SCHEDULE 'A' – ADDITIONAL COMPONENT PARTS**

Slitting for TRN15566 & TRN14820

TRN15267 - Duplicate fixture


TRN15267 - 80 Duplicate Fixture

TRN15566 Plasm Turn Ring Figures

TRN14640 Milling Tooling for Aerofolis

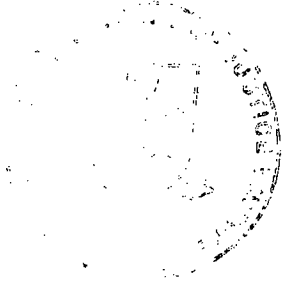
**TAB A**

Exhibit "A" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read 'JL Poole', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**



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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR.  
JUSTICE WILTON-SIEGEL

)  
)  
)

FRIDAY, THE 30<sup>th</sup>  
DAY OF MAY, 2014

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

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

**INITIAL ORDER**

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

**ON READING** the affidavit of George Koulakian sworn May 28, 2014 (the "**Koulakian Affidavit**") and the Exhibits thereto, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicant, Bank of Montreal ("**BMO**") and BMO Capital Partners (the "**Subordinate Lender**", and, together with BMO, the "**Secured Lenders**"), Richter Advisory Group Inc. ("**Richter**" or the "**Monitor**"), and no one appearing for any other party although duly served as appears from the affidavit of service of Sinikka Berglund-Yates sworn May 29, 2014 and on reading the consent of Richter to act as the Monitor,



## **SERVICE**

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

## **APPLICATION**

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

## **PLAN OF ARRANGEMENT**

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

## **POSSESSION OF PROPERTY AND OPERATIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## RESTRUCTURING

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

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

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

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

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

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

#### **NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY**

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

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

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

suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

#### **NO INTERFERENCE WITH RIGHTS**

16. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

#### **CONTINUATION OF SERVICES**

17. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

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

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

#### **NON-DEROGATION OF RIGHTS**

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

#### **PROCEEDINGS AGAINST DIRECTORS AND OFFICERS**

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

#### **DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE**

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

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

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

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

#### **APPOINTMENT OF MONITOR**

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

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

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



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

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

27. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the

protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

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

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

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

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

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

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

#### **ACCOMMODATION AGREEMENT AND KEY EMPLOYEE RETENTION PLAN**

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

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

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

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

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

#### **VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER**

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

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

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

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

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

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

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

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

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

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

#### **SERVICE AND NOTICE**

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

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

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

#### **GENERAL**

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

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

49. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give

effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. **THIS COURT ORDERS** that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

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

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



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

MAY 30 2014

NB

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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**INITIAL ORDER  
(May 30, 2014)**

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

John Salmas  
Tel: (416) 863-4374  
Fax: (416) 863-4592  
Email: [john.salmas@dentons.com](mailto:john.salmas@dentons.com)

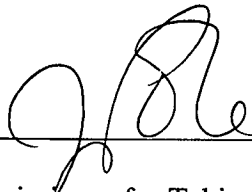
Robert J. Kennedy  
Tel: (416) 367-6756  
Fax: (416) 863-4592  
Email: [robert.kennedy@dentons.com](mailto:robert.kennedy@dentons.com)

*Solicitors for the Applicant*



**TAB B**

Exhibit "B" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

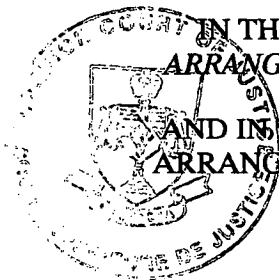
A handwritten signature in black ink, appearing to read 'JLP', is written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR. ) WEDNESDAY, THE 25<sup>th</sup>  
 )  
JUSTICE WILTON-SIEGEL ) DAY OF JUNE, 2014



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

**ORDER**

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

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

**SERVICE**

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

## STAY EXTENSION

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

## SOLICITATION PROCESS

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

## ACCOMMODATION AGREEMENTS


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

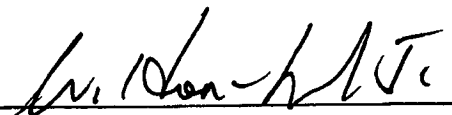
thereto and the unredacted Pratt Accommodation Agreement and the schedules thereto be kept sealed pending further Order of the Court.

**GENERAL**

8. **THIS COURT ORDERS** that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder, including without limitation in connection with any matters relating to the Siemens Accommodation Agreement, the Pratt Accommodation Agreement, or the Solicitation Process.
9. **THIS COURT ORDERS** that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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

 JUN 25 2014



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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**ORDER**  
(June 25, 2014)

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

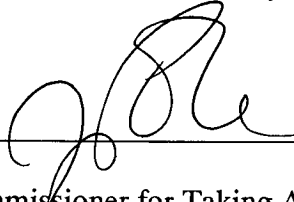
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*Solicitors for the Applicant*

**TAB C**

Exhibit "C" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read "JL Poole", written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**



**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR. )

JUSTICE PENNY )

TUESDAY, THE 5<sup>th</sup>

DAY OF AUGUST, 2014

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

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

**APPROVAL AND VESTING ORDER**

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

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

1. **THIS COURT ORDERS AND DECLARES** that the time for service of the Notice of Motion and Motion Record herein be and is hereby abridged such that this motion is properly returnable today and that all parties entitled to notice of the Motion have been duly served, and that any requirement for service of the Notice of Motion and Motion Record upon any party other than the parties served is unnecessary and hereby dispensed with and that the service of the Notice of Motion and Motion Record is hereby validated in all respects.
2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Liquidation Services Agreement by the Applicant is hereby ratified and approved, with such minor amendments as the Applicant, Liquidator or Monitor may deem necessary. The Applicant is hereby authorized and directed to perform the Liquidation Services Agreement and complete the Transaction in accordance with the terms and conditions of the Liquidation Services Agreement including, taking such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction.
3. **THIS COURT ORDERS AND DECLARES** that the Liquidation Services Agreement is hereby approved, and the terms of the Liquidation Services Agreement and the consideration set out in the Liquidation Services Agreement are fair and commercially reasonable and were arrived at in a commercially reasonable manner.
4. **THIS COURT ORDERS** that Infinity is entitled use to the Applicant's premises and is entitled to use the name "KK Precision Inc." and similar derivations in all of its advertising and promotional activities related to the Liquidation Services Agreement.
5. **THIS COURT ORDERS AND DECLARES** that all right, title and interest of the Applicant in and to the Assets (as defined in the Liquidation Services Agreement), shall be sold by Infinity as contemplated by the Liquidation Services Agreement and, upon payment of the applicable purchase price for each of the Assets by Purchasers (as that term is defined in the Liquidation Services Agreement), they shall vest in the applicable Purchaser of such Asset(s) free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), mortgages, charges, hypothecs, estates, trusts or deemed trusts (whether contractual, statutory or otherwise), liens (whether contractual, statutory or otherwise), executions, levies, claims, charges, encumbrances or any other rights, rights of use, claims, disputes and debts of

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

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

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

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

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

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

9. **THIS COURT ORDERS** that nothing herein contained shall require the Liquidator to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property (as defined in the Initial Order dated May 30, 2014) that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt Infinity from any duty to report or make disclosure imposed by applicable Environmental Legislation. Infinity, shall not, as a result of this Order or anything done in pursuance of Infinity's duties and powers hereunder or under the Liquidation Services Agreement, be deemed in Possession of any Property within the meaning of any Environmental Legislation, unless it is actually in possession.

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

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

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



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

AUG - 5 2014  
MB

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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**APPROVAL AND VESTING ORDER**  
(August 5, 2014)

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

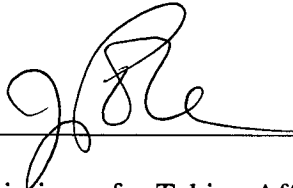
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*Solicitors for the Applicant*

**TAB D**

Exhibit "D" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read 'JLP', is written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**





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

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

THE HONOURABLE MR.

JUSTICE PENNY

)  
)  
)

TUESDAY, THE 16<sup>th</sup> DAY

OF SEPTEMBER, 2014

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

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

**ORDER**

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

**ON READING** the affidavit Garth Wheldon sworn September 10, 2014 and the Third Report of the Monitor dated September 10, 2014 and on hearing the submissions of counsel for the Company, the Monitor, and the Secured Lenders, no one appearing for any other person on the service list, although properly served as appears from the affidavit of Christopher Blake Moran sworn September 11, 2014, filed:

**SERVICE**

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

**INTERIM DISTRIBUTIONS**

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

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

**EXTENSION OF STAY**

4. **THIS COURT ORDERS** that the Stay Period as defined in the Initial Order be and is hereby extended until November 28, 2014.

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

SEP 16 2014

*NB*



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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**ORDER**  
(September 16, 2014)

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

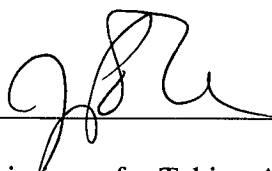
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*Solicitors for the Applicant*

# TAB E

Exhibit "E" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to be 'JLP', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

**RICHTER**

Richter Advisory Group Inc.  
181 Bay Street, 33<sup>rd</sup> Floor  
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**KK PRECISION INC.**

**REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS PROPOSED MONITOR OF  
KK PRECISION INC.**

**MAY 29, 2014**

**Table of Contents**

Introduction..... 1  
Richter’s Qualifications to Act as Monitor..... 2  
General Background to the Proposed CCAA Proceedings..... 3  
Objectives of the CCAA Proceedings..... 3  
Applicant’s Cash Flow Statement..... 4  
The Accommodation Agreement..... 6  
Appointment of the Advisor..... 7  
Key Employee Retention Plan..... 7  
Court Ordered Charges..... 8  
Proposed Monitor’s Conclusions and Recommendation..... 9

**Table of Appendices**

Cash Flow Statement for the Period May 10, 2014 to September 19, 2014..... A

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

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

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

**PRE-FILING REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as proposed Monitor of the Applicant**

**May 29, 2014**

**Introduction**

1. Richter Advisory Group Inc. ("**Richter**" or the "**Proposed Monitor**") understands that KK Precision Inc. (the "**Company**" or the "**Applicant**") intends to make an application to the Court for an order (the "**Initial Order**") granting a stay of proceedings in favour of the Company until June 29, 2014 pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**")
2. On the application for the Initial Order, the Company will be seeking an order that Richter be appointed as the CCAA monitor (the "**Monitor**") of the Company in the CCAA proceedings.
3. Richter, in its capacity as the Proposed Monitor, has reviewed the Court materials to be filed by the Applicant in support of its application. The purpose of this limited scope report of the Proposed Monitor is to provide information to this Honourable Court regarding the following:
  - (a) Richter's qualifications to act as Monitor (if appointed);
  - (b) A limited summary of certain background information about the Company and the CCAA proceedings;
  - (c) The objectives of the CCAA proceedings;
  - (d) The Company's statement of projected cash flow for the period from May 10, 2014 to September 19, 2014 (the "**Cash Flow Statement**");
  - (e) The Accommodation Agreement dated May 26, 2014 between the Company, Rolls-Royce Canada Ltd., Rolls-Royce Power Engineering PLC, Bank of Montreal, BMO Capital Partners, and Richter (the "**Accommodation Agreement**");
  - (f) The Company's retention of MVM Industrial Services Limited ("**MVM**") and Mr. Garth Wheldon ("**Weldon**") as an advisor (the "**Advisor**") to provide the Company with strategic advice and services throughout the CCAA proceedings;
  - (g) The proposed Key Employee Retention Plan ("**KERP**"), as set forth in the Accommodation Agreement;



- (h) The charges proposed in the Initial Order;
  - (i) The Proposed Monitor's conclusions and recommendations.
4. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in the Company's application materials, including the affidavit of George Koulakian sworn May 28, 2014 (the "Koulakian Affidavit") filed in support of the Company's application for relief under the CCAA.
5. The information contained in this report is based on unaudited financial information as well as discussions with representatives of the Company. The Proposed Monitor has not conducted an audit or other verification of such information and, accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained herein. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

**Richter's Qualifications to Act as Monitor**

6. Richter was previously engaged by the Company on December 30, 2013 to provide consulting services and assist the Company in developing and assessing various strategic alternatives which included seeking potential additional financing, equity investment and going concern sale opportunities.
7. Richter is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). The senior Richter professional personnel with carriage of this matter have acquired knowledge of the Applicant and its business since the commencement of Richter's engagement as consultant. Richter is, therefore, in a position to immediately assist the Company in its CCAA proceedings.
8. Richter is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA and, in particular, neither Richter nor any of its representatives has been at any time in the two preceding years;
- (a) A director, an officer or an employee of the Company;
  - (b) Related to the Company or to any director or officer of the Company; or
  - (c) The auditor of the Company.
9. Richter has consented to act as Monitor, should the Court grant the Applicant's request to commence the CCAA proceedings.

### **General Background to the Proposed CCAA Proceedings**

10. As described in the Koulakian affidavit, the Company manufactures medium-to-large, highly complex gas turbine engine components and sub-assemblies used in the energy, aerospace, marine and defence sectors.
11. The Company's key client base includes Rolls-Royce Canada Ltd. ("**Rolls-Royce**"), Siemens Power Generation, Pratt & Whitney Canada, General Electric, Unison Engine Components, AECL and Husky.
12. The Company's business, affairs, financial performance and position, as well as the causes of its insolvency, are detailed extensively in the Koulakian Affidavit and are, therefore, not repeated herein. The Proposed Monitor has reviewed the Koulakian Affidavit and discussed the business and affairs of the Applicant and the causes of insolvency with senior management personnel of the Company and is of the view that the Koulakian Affidavit provides a fair summary thereof.

### **Objectives of CCAA Proceedings**

13. As noted in the Koulakian Affidavit, the Company, with the assistance of Richter, has undertaken a comprehensive sales process that confirmed several parties' interest in the Company, but has failed to generate final offers.
14. According to the Koulakian Affidavit, the primary purpose of the CCAA proceedings is to allow the Company the opportunity to implement an orderly wind-down of its operations, including ongoing production activities for a period of time to, among other things, permit key customers the opportunity to source alternate supply in the context of a formal proceeding, which would include a stay of proceedings and assistance from a Court-appointed Monitor.
15. It is the Company's expectation that an orderly wind-down will maximize value for all stakeholders by enhancing recoveries from accounts receivable, avoiding set-off claims, optimizing realizations from work-in-process, providing transition employment and retention pay to a significant number of the Company's employees, preventing a costly supply disruption to the Company's direct and indirect customers, and providing for additional discussions and negotiations with interested parties with a view to achieving the highest realizations from the Company's assets.

### Applicant's Cash Flow Statement

16. The detailed Cash Flow Statement is attached as Appendix "A" to this report and is summarized below:

KK Precision Inc Cash Flow Forecast From 05/10/2014 to 09/19/2014 (\$000's)	
<b>Cash Receipts</b>	
Operating Cash Receipts	\$ 6,864
Other	412
<b>Total Cash Receipts</b>	<b>\$ 7,276</b>
<b>Cash Disbursements</b>	
Operating Expenses	(875)
Payroll & Benefits	(1,205)
Retention Payments	(412)
Rent & Property Taxes	(223)
Utilities & Insurance	(136)
Sales Tax Reimbursements	(583)
Professional Fees	(485)
Other	(445)
<b>Total Disbursements</b>	<b>\$ (4,363)</b>
<b>Net Cash Flow</b>	<b>\$ 2,913</b>

17. The Cash Flow Statement estimates that during the period of the projection, the Company will have total receipts of approximately \$7,276,000 and total disbursements of approximately \$4,363,000.
18. The Cash Flow Statement projects that, subject to the Accommodation Agreement being approved by this Court (discussed further below), the Company will have sufficient liquidity to continue operations and to pay professional fees as set out during the period of the forecast.
19. The Proposed Monitor has reviewed the Cash Flow Statement to the standard required of a Court-appointed Monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. The Canadian Association of Insolvency and Restructuring Professionals' standards of professional practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on Cash Flow Statement.

20. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussion related to information supplied to it by certain key members of management and employees of the Company. Since the probable and hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by the Company for the probable and hypothetical assumptions and the preparation and presentation of the Cash Flow Statement.
21. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:
- (a) The probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
  - (b) As at the date of this report, the probable and hypothetical assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Cash Flow Statement, given the probable and hypothetical assumptions; or
  - (c) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.
22. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the probable and hypothetical assumptions occur, and the variation could be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. In addition, the Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Cash Flow Statement, or relied upon by the Proposed Monitor in preparing this report.
23. The Cash Flow Statement has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

### **The Accommodation Agreement**

24. The Company's major customer is Rolls-Royce. The Company, with the assistance of Richter, has been negotiating extensively with Rolls-Royce over the terms of an Accommodation Agreement that would ensure continued production of component parts for Rolls-Royce during the CCAA proceedings and provide Rolls-Royce the time necessary to transition the supply of component parts sourced from the Company to alternate suppliers. On May 26, 2014, the terms of the Accommodation Agreement were settled.
25. Certain of the key business issues addressed by the Accommodation Agreement are summarized below:
- (a) Confirmation of the amount of accounts receivable owed by Rolls-Royce to the Company;
  - (b) Expedited payment for amounts owed by Rolls-Royce to the Company;
  - (c) Confirmation that the Company will continue to produce and ship component parts to Rolls-Royce during the period of the Accommodation Agreement;
  - (d) Funding of the KERP by Rolls Royce; and
  - (e) The Lenders forbearance, for the duration of the Accommodation Agreement, from enforcing their rights and remedies.
26. In the Proposed Monitor's view, the Accommodation Agreement provides an effective mechanism to stabilize the Company's operations and provide the funding necessary to ensure continued production during the period of the Accommodation Agreement to maximize value for all stakeholders. Accordingly, the Proposed Monitor is supportive of the Company's application for approval of the Accommodation Agreement.
27. A copy of the Accommodation Agreement, without Schedules "A" to "H" (the "**Agreement Schedules**"), is attached as Exhibit "K" to the Koulakian Affidavit. As the Agreement Schedules include certain sensitive commercial and competitive information, the Applicant has requested that this information be filed with the Court on a sealed and confidential basis. In the circumstances, the Proposed Monitor believes it is appropriate for the Agreement Schedules to be filed with the Court on a confidential basis and sealed until further Order of this Court.

### **Appointment of the Advisor**

28. The Company engaged MVM and Wheldon as Advisor on May 23, 2014 to provide strategic advice and services throughout the Company's CCAA proceedings.
29. Wheldon is the former President and CEO of the Company. Subsequent to Wheldon leaving the Company in late 2012, he was retained by the Company to provide advice and guidance, as the Company faced increasing financial pressures.
30. The Proposed Monitor understands that Wheldon currently oversees the Company's financial and operational affairs and has provided the Company with substantial assistance and guidance in the period leading up to the Company's application for relief pursuant to the CCAA.
31. Wheldon's knowledge of the business should facilitate the Company's restructuring activities throughout the CCAA proceedings. It should also assist to reduce the fees and costs of certain of the professionals, which is a primary consideration in these proceedings, given the size of the business, notwithstanding the substantial complexity.
32. A copy of the Advisory Services Agreement between the Company, MVM and Wheldon (the "**Advisory Agreement**") is attached as Exhibit "L" to the Koulakian Affidavit. The Advisory Agreement provides for compensation to be paid by the Company to the Advisor in the amount of \$12,000 bi-weekly plus a success fee based on realizations from the Company's assets. Based on the Proposed Monitor's experience, the bi-weekly fee appears reasonable in the circumstances. The Proposed Monitor also believes that absent the retention of the Advisor, professional fees would increase by at least the bi-weekly fee payable to the Advisor.
33. For the foregoing reasons, the Proposed Monitor is the view that the Advisory Agreement and the retention of the Advisor are appropriate in the circumstances.

### **Key Employee Retention Plan**

34. To ensure retention of key personnel during the CCAA proceedings (the "**KERP Employees**"), the Company, in consultation with both Rolls-Royce and the Proposed Monitor, has formulated and is seeking the Court's approval of a KERP.

35. The Company has advised the Proposed Monitor that the KERP Employees are critical to the ongoing operation, care and maintenance of the Company's business operations. The Proposed Monitor has been further advised by the Company that the KERP Employees have intimate knowledge of the production equipment, processes and information systems at the Company and are essential to the Company producing the required component parts for Rolls-Royce and other customers during the Company's CCAA proceedings. The Company further believes that additional incentives are required to ensure the KERP Employees continue their employment with the Company during the Applicant's CCAA proceedings.
36. The KERP provides for retention payments to be paid to each of the KERP Employees at specific dates during the term of the Accommodation Agreement. Retention payments will only be made to KERP Employees so long as each eligible participant remains employed by the Company on the date retention payments are due to be paid.
37. A confidential schedule detailing the KERP Employees and their respective retention payments has been provided to the Court as Schedule "C" of the Agreements Schedules.
38. The Proposed Monitor is of the view that the KERP appears appropriate and reasonable in the circumstances. Accordingly, the Proposed Monitor is supportive of the Company's application for approval of the KERP.

#### **Court Ordered Charges**

39. The proposed Initial Order provides for an Administration Charge (as defined below) and a D&O Charge (as defined below):
  - (a) **Administration Charge**
40. The proposed Initial Order provides for a first-ranking charge in the maximum amount of \$250,000 charging the assets of the Applicant to secure the fees and disbursements incurred in connection with services rendered to the Applicant both before and after the commencement of the CCAA proceedings by the following entities: the Monitor, the Monitor's legal counsel and legal counsel to the Company (the "Administration Charge").

41. The quantum of the Administration Charge sought by the Company was determined in consultation with the Proposed Monitor. The creation of the Administration Charge is typical in CCAA proceedings as is the proposed priority of the Administration Charge as set out in the form of Initial Order filed with the Court.

**(b) D&O Charge**

42. The proposed Initial Order provides for a charge against the assets of the Applicant in favour of the Applicant's directors and officers in the maximum amount of \$100,000 (the "D&O Charge") for liabilities incurred by the Company that may result in post-filing claims against the directors and officers in their personal capacities.

43. The amount of the D&O Charge was estimated by the Company, taking into consideration hourly and salaried payroll costs, unremitted source deductions, other employment related liabilities that attract liability for directors and officers, vacation pay and sales tax.

44. The Proposed Monitor has been advised that due to the potential for personal liability, the sole remaining director of the Company is unwilling to continue his services and involvement in the Company's CCAA proceedings without the protection of the D&O Charge. As the Company will require the participation and experience of the Company's sole remaining director to successfully wind-down the Company's operations, the Proposed Monitor believes that the D&O Charge is required and reasonable in the circumstances.

45. It is contemplated that the D&O Charge will be subordinate to the Administration Charge as set out in the proposed Initial Order.

**Proposed Monitor's Conclusions and Recommendations**

46. As a result of the Company's deteriorated financial condition and liquidity issues, it is unable to continue operations in the near term absent (i) a stay of proceedings, and (ii) increased liquidity to be provided as per the terms of the Accommodation Agreement.

47. If the Company is provided with a reasonable period of protection, its plan is to implement a managed wind-down of its operations to maximize value for its stakeholders.

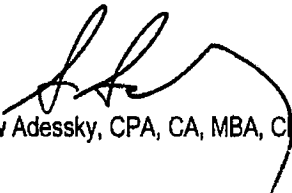


48. Based on the foregoing, the Proposed Monitor respectfully recommends that this Honourable Court grant the relief sought by the Company in accordance with the Initial Order presented by the Applicant.

All of which is respectfully submitted this 29<sup>th</sup> day of May, 2014.

**Richter Advisory Group Inc.**  
**In its capacity as Proposed Monitor of**  
**KK Precision Inc.**

Per:



Andrew Adessky, CPA, CA, MBA, CRP

# Appendix "A"

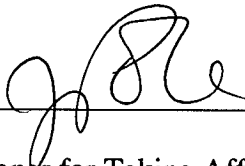
	13-May	21-May	30-May	06-Jun	13-Jun	20-Jun	27-Jun	04-Jul	11-Jul	18-Jul	25-Jul	01-Aug	08-Aug	15-Aug	22-Aug	29-Aug	05-Sep	12-Sep	19-Sep	TOTAL	
Cash Receipts																					
Operating Cash Receipts	1,622	491	383	343	504	512	566	554	519	507	270	270	270	224	222					6,884	
Other			14																		412
Total Cash Receipts	1,622	491	397	343	504	512	566	554	519	507	270	270	270	224	222					7,296	
Cash Disbursements																					
Operating Expenses	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	
Payroll & Benefits		(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
Retention Payments	(223)																				
Rent & Property Taxes		(7)	(20)																		
Utilities & Insurance																					
Sales Tax Provisions		(80)	(40)	(50)	(72)	(45)	(72)	(30)	(30)	(30)	(15)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	
Professional Fees	(50)	(20)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	
Other																					
Total Disbursements	(172)	(280)	(318)	(388)	(283)	(283)	(243)	(282)	(253)	(182)	(233)	(233)	(233)	(96)	(387)	(49)	(41)	(23)	(18)	(4,363)	
Net Cash Flow	(10)	(189)	(181)	(345)	(279)	(271)	(317)	(328)	(234)	(175)	(63)	(63)	(63)	(272)	(165)	(169)	(169)	(169)	(169)	(2,131)	

Notes:

1. Primary completed of collections of existing WIP and additional customer production needs based on management's estimates. Sales tax (HST) collections and remittances have been included in the forecast based on when the products are completed/delivered, with remittances being made on the 20th for the following month.
2. Represents funding for retention payments to employees funded pursuant to the Accommodation Agreement.
3. Represents management's estimate for material and subcontractor costs to be incurred to complete the WIP and customer production needs.
4. Computed of wages and benefits.
5. Represents retention payments to employees.
6. Includes upfront payment of five months rent and property taxes and security deposit.
7. Primarily computed of contingency based on management's estimate.

**TAB F**

Exhibit "F" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read 'JLP', is written above a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

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

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

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

**FIRST REPORT OF**  
**RICHTER ADVISORY GROUP INC.**  
**IN ITS CAPACITY AS MONITOR OF**  
**KK PRECISION INC.**

June 24, 2014

**CHAITONS LLP**  
5000 Yonge Street, 10<sup>th</sup> Floor  
Toronto, Ontario  
M2N 7E9

**Sam Rappos**  
LSUC #51399S  
Tel: (416) 218-1137  
Fax: (416) 218-1837  
E-mail: samr@chaitons.com

**Lawyers for Richter Advisory Group Inc.**

**TO: THE SERVICE LIST**

# INDEX

1917  
1918  
1919

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

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

**INDEX**

**Tab**

**Document**

1

First Report of Richter Advisory Group Inc. in its capacity as  
monitor of KK Precision Inc. dated June 24, 2014



# TAB 1

10/10/10

**RICHTER**

Richter Advisory Group Inc.  
181 Bay Street, 33<sup>rd</sup> Floor  
Toronto, ON M5J 2T3  
[www.richter.ca](http://www.richter.ca)

**KK PRECISION INC.**

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**JUNE 24, 2014**

**Table of Contents**

Introduction..... 1  
Purpose of this Report..... 1  
Terms of Reference..... 2  
The Company's Activities since the Issuance of the Initial Order..... 3  
The Accommodation Agreements with Siemens and Pratt..... 4  
The Monitor's Activities since the Issuance of the Initial Order..... 5  
Cash Flow for the Period May 10, 2014 to June 13, 2014..... 6  
The Solicitation Process..... 8  
The Company's Request for an Extension to the Stay of Proceedings to September 19, 2014..... 10  
Monitor's Conclusions and Recommendation..... 11

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

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

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

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.**

**June 24, 2014**

**Introduction**

1. On May 30, 2014, the *Ontario* Superior Court of Justice (Commercial List) (the "Court") issued an order (the "Initial Order") granting KK Precision Inc. (the "Company") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA"). Pursuant to the Initial Order, Richter Advisory Group Inc. ("Richter") was appointed the Company's monitor (the "Monitor"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014 (the "Stay Period"). The proceedings commenced by the Company under the CCAA are herein referred to as the "CCAA Proceedings".
2. The principal purpose of the CCAA Proceedings is to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down includes production activities for a period of time to, among other things, permit key customers the opportunity to source alternative supply, and to carry out a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.

**Purposes of this Report**

3. The purpose of this report ("Report") is to provide information to this Court in respect of the following:
  - (a) The Company's activities since the issuance of the Initial Order;
  - (b) The Accommodation Agreement dated June 24, 2014 between the Company, Siemens Energy Inc. ("Siemens"), Bank of Montreal and BMO Capital Partners (together, the "Lenders") (the "Siemens Accommodation Agreement");

- (c) The Accommodation Agreement dated June 19, 2014 between the Company and Pratt & Whitney Canada Corp. ("Pratt"), (the "Pratt Accommodation Agreement" and together with the Siemens Accommodation Agreement, the "Accommodation Agreements");
- (d) The Monitor's activities since the issuance of the Initial Order;
- (e) The Company's actual cash flows for the period from May 10, 2014 to June 13, 2014, including a comparison of actual to forecast results;
- (f) The process commenced by the Company to solicit offers for the Company's business and/or assets (the "Solicitation Process");
- (g) The Company's request for an extension of the Stay Period to September 19, 2014; and
- (h) Recommend that this Honourable Court make an order:
  - Ratifying the Solicitation Process;
  - Approving the Siemens Accommodation Agreement;
  - Approving the Pratt Accommodation Agreement;
  - Approving the redaction of the sensitive commercial information in the Accommodation Agreements and sealing the unredacted Accommodation Agreements together with the schedules attached thereto; and
  - Granting the Company's request for an extension of its stay of proceedings from June 29, 2014 to September 19, 2014.

#### **Terms of Reference**

4. In preparing this Report, the Monitor has relied on unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. The Monitor has not conducted an audit or other verification of such information.
5. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

### **The Company's Activities since the Issuance of the Initial Order**

6. Details of the Company's activities since the commencement of the CCAA Proceedings are set out in the affidavit of Garth Wheldon sworn June 24, 2014, filed in support of the Company's motion returnable June 25, 2014 (the "June 24 Wheldon Affidavit").
  
7. A summary of the Company's activities include:
  - (a) Meeting and corresponding with employees regarding the CCAA Proceedings;
  - (b) Continuing to manufacture component parts and supply goods to Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "Rolls Royce") in accordance with the terms of an accommodation agreement between Rolls Royce and the Company approved in the Initial Order (the "Rolls Royce Accommodation Agreement");
  - (c) Preparing weekly production reports for Rolls Royce in accordance with the Rolls Royce Accommodation Agreement;
  - (d) Meeting and corresponding with the Company's other customers, including Siemens and Pratt, to address current production requirements and develop workable schedules for the production of customer parts taking into consideration the Company's available resources;
  - (e) Negotiating the Accommodation Agreements (as discussed further below);
  - (f) Communicating with the new landlord for the Company's premises located at 104 Oakdale Road, Toronto, Ontario (the "Premises"), 2215225 Ontario Inc. ("2215225" or the "Landlord") regarding the Company's lease, which expires on September 30, 2014;
  - (g) Communicating with key suppliers to secure goods and services during the CCAA Proceedings and to address payment terms;
  - (h) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
  - (i) Reporting receipts and disbursements;
  - (j) Making payments to suppliers for goods and services received following the issuance of the Initial Order;

- (k) Consulting with the Monitor to develop the Solicitation Process (as discussed further below);  
and
- (l) Working with the Monitor to satisfy information requests of Prospective Purchasers (as defined below) as well as both scheduling and overseeing site visits for Prospective Purchasers to view and inspect the Company's machinery/equipment.

#### **The Accommodation Agreements with Siemens and Pratt**

8. The Company, with the assistance of the Monitor, has been negotiating the Accommodation Agreements that would ensure continued production of component parts for both Siemens and Pratt during the CCAA Proceedings and provide Siemens and Pratt the time necessary to transition the supply of component parts sourced from the Company to alternate suppliers.
9. Certain of the key business terms addressed by the Siemens Accommodation Agreement and the Pratt Accommodation Agreement are summarized below:
  - (a) Confirmation of the amount of accounts receivable owed by Siemens and Pratt respectively to the Company;
  - (b) Expedited payment for amounts owed by Siemens and Pratt to the Company;
  - (c) Confirmation that the Company will continue to produce and ship component parts to Siemens and Pratt during the period of the Accommodation Agreements, including revised pricing for same;
  - (d) Confirmation that the Company will sell to Siemens and Pratt certain raw materials and work-in-process (unfinished) inventory used in the production of their respective component parts;  
and
  - (e) Limitations on Siemens and Pratt's setoff rights against the Company.
10. The Monitor is supportive of the Company's motion for approval of the Accommodation Agreements for the following reasons:
  - (a) They provide a mechanism to maximize the value of the Company's accounts receivable and inventory;

- (b) They provide a framework for the Company to continue to produce component parts for Siemens and Pratt that should allow them to secure alternative production without disruption;
  - (c) They provide a means to fund the Company's operations during the CCAA Proceedings, including the costs of these proceedings; and
  - (d) They provide the framework for the Company to execute an orderly wind-down of its business, including providing the stability required to meet its enhanced short-term production plan and secure payment for component parts shipped in the pre and post-filing periods.
11. A redacted copy of the Siemens Accommodation Agreement (without schedules) and the Pratt Accommodation Agreement (without schedules) are attached as Exhibits "B" and "C" to the June 24 Wheldon Affidavit. As the Accommodation Agreements and the schedules attached thereto include certain sensitive commercial and competitive information, the Company has requested that the unredacted Accommodation Agreements and the schedules attached thereto be filed with the Court on a sealed and confidential basis. In the circumstances, the Monitor believes that it is appropriate for the unredacted Accommodation Agreements and the schedules attached thereto to be filed with the Court on a confidential basis and sealed until further Order of this Court.

#### **The Monitor's Activities since the Issuance of the Initial Order**

12. Since the date of the Initial Order, the Monitor's activities have included:
- (a) Arranging for notice of the CCAA Proceedings to be published in the Monday, June 9, 2014 edition of the National Post, as required pursuant to the Initial Order;
  - (b) Sending a notice, within 5 days of the issuance of the Initial Order, of the CCAA Proceedings to all known creditors of the Company;
  - (c) Establishing a website at [www.richter.ca/en/insolvency-cases/k/kk-precision-inc](http://www.richter.ca/en/insolvency-cases/k/kk-precision-inc), where all materials filed with the Court, and all orders made by the Court in connection with the CCAA Proceedings, will be available in electronic form;
  - (d) Implementing procedures for the monitoring of the Company's cash flows and for ongoing reporting of variances to the Cash Flow Forecast (as hereinafter defined);



- (e) Assisting the Company in preparing communications to its employees regarding the CCAA Proceedings and participating in a meeting with the Company's management team and employees on June 2, 2014 to discuss the CCAA Proceedings, including its impact on employees;
- (f) Assisting the Company in preparing its weekly report to Rolls Royce in accordance with the terms of the Rolls Royce Accommodation Agreement, including an analysis of the production status for component parts to be delivered to Rolls Royce;
- (g) Collecting and dispersing monies received, in trust, from Rolls Royce to the Company in accordance with the terms of the Rolls Royce Accommodation Agreement;
- (h) Assisting the Company in its discussions and negotiations with both Siemens and Pratt regarding the terms of the Accommodation Agreements;
- (i) Considering processes to market the Company's business and/or assets for sale and assisting the Company in developing the Solicitation Process and communications with interested parties;
- (j) Attending frequently at the Company's premises and meeting with the Company's management team to discuss the Company's operations and the CCAA Proceedings;
- (k) Corresponding and communicating extensively with the Company and its legal counsel;
- (l) Corresponding and communicating with the Lenders and their legal counsel;
- (m) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings; and
- (n) Preparing this Report.

**Cash Flow for the Period from May 10, 2014 to June 13, 2014**

13. The Company's cash flow projection for the period May 10, 2014 to September 19, 2014 (the "Cash Flow Forecast") was filed with the Court as part of the Company's CCAA application materials.

14. A comparison of the Company's budget to actual results for the week ending June 13, 2014 is summarized below:

<b>KK Precision Inc.</b>			
<b>Cash Flow Variance Analysis</b>			
<b>5 Weeks Ended June 13th</b>			
	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
<b>(\$000's)</b>	<b>13-Jun</b>	<b>13-Jun</b>	<b>\$</b>
<b>Cash Receipts</b>			
Operating Cash Receipts	\$ 2,476	\$ 1,826	\$ (650)
Other	23	-	(23)
<b>Total Cash Receipts</b>	<b>\$ 2,499</b>	<b>\$ 1,826</b>	<b>\$ (673)</b>
<b>Cash Disbursements</b>			
Operating Expenses	(195)	(100)	95
Payroll & Benefits	(420)	(402)	18
Retention Payments	(23)	(46)	(23)
Rent & Property Taxes	(223)	(223)	-
Utilities & Insurance	(39)	(6)	33
Sales Tax Remittances	-	-	-
Professional Fees	(150)	(55)	95
Other	(123)	-	123
<b>Total Disbursements</b>	<b>\$ (1,173)</b>	<b>\$ (832)</b>	<b>\$ 341</b>
<b>Net Cash Flow</b>	<b>\$ 1,326</b>	<b>\$ 994</b>	<b>\$ (332)</b>
Cash - Opening Balance	\$ 432	\$ 510	\$ 78
Cash - Closing Balance	\$ 1,758	\$ 1,504	\$ (254)

15. As reflected in the above summary table, the Company generated net cash flow of approximately \$994,000 and had approximately \$1.5 million on hand, net of outstanding cheques, as at June 13, 2014.
16. The principal reasons for the unfavourable net cash flow variance are:
- The negative variance of approximately \$673,000 in receipts is due primarily to timing differences related to the delivery of manufactured component parts for Rolls Royce and delays in finalizing the Accommodation Agreements. The Company expects that these negative variance will reverse in the coming months; and
  - The positive variance of approximately \$341,000 in disbursements is due primarily to lower than projected operating expenses and timing differences related to the payment of certain other expenses, including professional fees.

17. The Monitor is of the view that the Company is acting in a manner consistent with its Cash Flow Forecast and there have been no material adverse changes to the Company's operations since the commencement of the CCAA Proceedings.

#### **The Solicitation Process**

18. As noted in the affidavit of George Koulakian sworn May 28, 2014 in support of the Company's CCAA application (the "May 28 Koulakian Affidavit"), as a result of the Company's deteriorating financial position, on December 30, 2013, the Company retained Richter to develop strategic alternatives, which included seeking potential financing, an equity investment and/or going concern sale opportunities.
19. As also noted in the May 28 Koulakian Affidavit, a sales process was launched in February 2014 with a view to identifying an investor and/or buyer for the Company's business (the "Initial Sales Process"). As part of the Initial Sales Process, 57 potential interested parties, including strategic purchasers (competitors, suppliers, companies operating in complementary businesses, etc.) and financial buyers (equity investors with an interest in businesses of a similar profile to the Company) were contacted.
20. Although the Initial Sales Process generated interest from several interested parties, the Initial Sales Process did not result in any firm deal for the Company's business and/or assets.
21. Given the recent completion of the Initial Sales Process and the Company's limited liquidity, the Company, with the assistance of the Monitor, commenced the Solicitation Process as a means of quickly determining whether a transaction that would result in greater than forced liquidation value was available.
22. The purpose of the Solicitation Process is to identify one or more purchasers for the Company's business and/or assets. The objective is to complete a transaction by the end of July 2014, or as soon as possible thereafter. The Solicitation Process is summarized as follows:
  - (a) The Company, in consultation with the Monitor, assembled a list of potential interested parties, including many of the strategic/financial parties that participated in the Initial Sales Process and parties that regularly liquidate assets in insolvency proceedings (collectively, the "Prospective Purchasers");

- (b) On June 16, 2014, the Company distributed an offer solicitation letter to the Prospective Purchasers detailing the opportunity to purchase the Company's business and/or assets (the "Offer Solicitation Letter"). In addition to the Offer Solicitation Letter, Prospective Purchasers were also provided with a detailed listing of the Company's machinery/equipment, including specifications for same (the "Asset List"). A copy of the Offer Solicitation Letter, including the Asset List, is attached as Exhibit "A" to the June 24 Wheldon Affidavit;
  - (c) Prospective Purchasers interested in obtaining additional information regarding the Company's business will be required to execute a confidentiality agreement;
  - (d) The Company, with the assistance of the Monitor, will facilitate due diligence efforts by, among other things, coordinating meetings between Prospective Purchasers and the Company and/or scheduling site visits to view and inspect the Company's machinery/equipment;
  - (e) Prospective Purchasers are required to submit offers for the Company's assets, en bloc, on or before 5:00 p.m. (Eastern Standard Time) on July 7, 2014;
  - (f) The Company, in consultation with the Monitor, will evaluate all offers and may seek clarifications and/or re-bidding of certain offers;
  - (g) The successful offeror will be required to remove all purchased assets from the Premises by no later than September 30, 2014; and
  - (h) Any sale of the Company and/or its assets will be subject to the approval of this Honourable Court, which will be sought by the Company prior to the end of July 2014 or as soon as practical thereafter, following completion of a definitive agreement.
23. The Monitor notes that the proposed time-frame is condensed but, as noted above, the Company's assets have already been extensively marketed in the Initial Sales Process. In addition, the proposed time frame is necessary to provide the successful bidder with time to coordinate the removal of all purchased assets from the Premises by no later than September 30, 2014, as the Company's lease for the Premises expires on September 30, 2014.
24. As noted in the May 28 Koulakian Affidavit, the lease for the Premises expired on April 30, 2014 and the Company negotiated a lease extension which runs until September 30, 2014. Subsequent to entering into the lease extension, the Premises were sold to 2215225.

25. In consideration of the timeframe to vacate the Premises following the completion of its production activities, which are expected to run until August 31, 2014 at the latest, the Company and the Monitor approached the Landlord regarding a possible one-month lease extension for the Premises. On June 16, 2014, the Landlord informed the Company of the terms upon which it would agree to a one-month lease extension to October 31, 2014, which terms were unacceptable to the Company. On June 19, 2014, the Company was informed by the Landlord that it was not prepared to consider a further lease extension beyond September 30, 2014, as the Landlord had other uses for the Premises that are expected to commence October 1, 2014.
26. As a result, the Monitor believes that the deadlines proposed in the Solicitation Process are reasonable in the circumstances. The Monitor will report back to this Honourable Court if facts or circumstances require the Company or the Monitor to re-evaluate the time periods or the Solicitation Process.

**The Company's Request for an Extension of the Stay of Proceedings to September 19, 2014**

27. The current Stay Period expires on June 29, 2014. The Company is seeking an extension of the Stay Period to September 19, 2014. The Monitor is of the view that the extension to the Stay Period is appropriate in the circumstances and supports the Company's request for an extension of the Stay Period for the following reasons:
  - (a) The Company has acted and is acting in good faith and with due diligence;
  - (b) The granting of the extension should not prejudice any employee or creditor, as the Company is projected to have sufficient funds to pay post-filing services and supplies, as contemplated by the Cash Flow Forecast, which extends to September 19, 2014. The Company is of the view that the Cash Flow Forecast remains appropriate and reflects management's expectation of the Company's receipts and disbursements for the period of the forecast. As a result, a revised cash flow forecast has not been prepared;
  - (c) The Rolls Royce Accommodation Agreement as well as the Siemens Accommodation Agreement and the Pratt Accommodation Agreement contemplate the continued production of component parts by the Company until August 30, 2014;
  - (d) It will allow for the Solicitation Process to be substantially advanced;

- (e) The extension would be contemporaneous with the Company's proposed wind-down period;  
and
- (f) The Lenders support the extension.

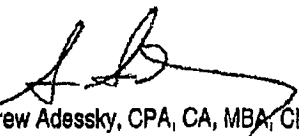
**Monitor's Conclusions and Recommendations**

28. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Order(s) granting the relief detailed in paragraph 3(h) of this Report.

All of which is respectfully submitted this 24<sup>th</sup> day of June, 2014.

**Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.**

Per:



Andrew Adessky, CPA, CA, MBA, CIRP

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

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

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

Proceedings commenced at TORONTO

**FIRST REPORT OF  
RICHTER ADVISORY GROUP INC.  
IN ITS CAPACITY AS  
MONITOR OF  
KK PRECISION INC.**

**CHAITONS LLP**  
5000 Yonge Street, 10<sup>th</sup> Floor  
Toronto, Ontario  
M2N 7E9

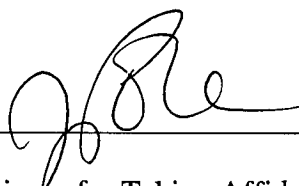
**Sam Rappos**  
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Tel: (416) 218-1137  
Fax: (416) 218-1837  
E-mail: samr@chaitons.com

**Lawyers for Richter Advisory Group Inc.**

**TAB G**



Exhibit "G" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.



---

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

**RICHTER**

Richter Advisory Group Inc.  
181 Bay Street, 33<sup>rd</sup> Floor  
Toronto, ON M5J 2T3  
[www.richter.ca](http://www.richter.ca)

**KK PRECISION INC.**

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**JULY 25, 2014**

**Table of Contents**

Introduction..... 1  
Purpose of this Report..... 2  
Terms of Reference..... 3  
The Company's Activities since the Issuance of the Initial Order..... 3  
The Monitor's Activities since the Issuance of the Initial Order..... 4  
Cash Flow for the Period May 10, 2014 to July 18, 2014..... 5  
The Solicitation Process..... 7  
The Transaction..... 9  
The Premises..... 10  
Monitor's Conclusions and Recommendation..... 12

**Table of Appendices**

Appendix A                      Order of the Honourable Mr. Justice Wilton-Siegel dated June 25, 2014

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

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

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

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.**

**July 25, 2014**

**Introduction**

1. On May 30, 2014, the *Ontario* Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting KK Precision Inc. (the "**Company**") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed the Company's monitor (the "**Monitor**"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014 (the "**Stay Period**"). The proceedings commenced by the Company under the CCAA are herein referred to as the "**CCAA Proceedings**".
2. On June 25, 2014, the Court issued an order (the "**June 25 Order**"), among other things, extending the Stay Period to September 19, 2014, and approving the process commenced by the Company to solicit offers for the Company's business and/or assets (the "**Solicitation Process**"). A copy of the June 25 Order is attached hereto as **Appendix "A"**.
3. The principal purpose of the CCAA Proceedings is to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down includes production activities for a period of time to, among other things, provide key customers with the opportunity to source alternative supply, and to carry out a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.

## Purposes of this Report

4. The purpose of this report (the "**Second Report**") is to provide information to this Court in respect of the following:
- (i) The activities of the Company and the Monitor since the issuance of the Initial Order;
  - (ii) The Company's actual cash flows for the period from May 10, 2014 to July 18, 2014, including a comparison of actual to forecast results;
  - (iii) The results of the Solicitation Process;
  - (iv) The proposed liquidation of the Company's machinery and equipment (the "**Assets**") by Infinity Asset Solutions Inc. ("**Infinity**"), subject to the Court's approval;
  - (v) The key terms of a Liquidation Services Agreement (the "**LSA**") dated July 25, 2014, between the Company and Infinity (the "**Transaction**");
  - (vi) The reasons why the Monitor believes the LSA should be approved by this Honourable Court;
  - (vii) The discussions/negotiations between the Company and 2215225 Ontario Inc. ("**2215225**" or the "**Landlord**") regarding the Company's leased premises located at 104 Oakdale Road, Toronto, Ontario (the "**Premises**"); and
  - (viii) The Monitor's recommendation that this Honourable Court make an order or orders:
    - Approving the LSA and the Transaction, and authorizing and directing the Company to complete the Transaction;
    - Vesting, in the ultimate purchaser or purchasers of the Assets, the Company's right, title and interest in and to the Assets, free and clear of all liens and encumbrances (the "**Approval and Vesting Order**"); and
    - Sealing the Offer Summary (as hereinafter defined) and the unredacted version of the LSA until the closing of the Transaction or upon further order of the Court.

### **Terms of Reference**

5. In preparing this Second Report, the Monitor has relied on unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. The Monitor has not conducted an audit or other verification of such information.
6. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

### **The Company's Activities since the Issuance of the Initial Order**

7. A summary of the Company's activities since the issuance of the Initial Order include:
  - (i) Meeting and corresponding with employees regarding the CCAA Proceedings;
  - (ii) Continuing to manufacture component parts and supply goods to Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "**Rolls Royce**"), Siemens Energy Inc. ("**Siemens**") and Pratt & Whitney Canada Corp. ("**Pratt**") in accordance with the terms of accommodation agreements entered into by the Company with Rolls Royce, Siemens and Pratt, respectively;
  - (iii) Preparing weekly production reports for Rolls Royce in accordance with the terms of the Rolls Royce accommodation agreement;
  - (iv) Communicating with the Landlord and its counsel regarding the Company's lease for the Premises, which expires on September 30, 2014;
  - (v) Communicating with key suppliers to secure goods and services during the CCAA Proceedings and to address payment terms;
  - (vi) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
  - (vii) Reporting receipts and disbursements;
  - (viii) Making payments to suppliers for goods and services received following the issuance of the Initial Order;
  - (ix) Consulting with the Monitor to develop the Solicitation Process;

- (x) Working with the Monitor to satisfy information requests of Prospective Purchasers (as defined below) as well as both scheduling and overseeing site visits for Prospective Purchasers to view and inspect the Company's machinery/equipment; and
- (xi) Negotiating and finalizing the LSA.

#### **The Monitor's Activities since the Issuance of the Initial Order**

8. Since the date of the Initial Order, the Monitor's activities have included:
- (i) Arranging for notice of the CCAA Proceedings to be published in the Monday, June 9, 2014, edition of the National Post, as required pursuant to the Initial Order;
  - (ii) Sending a notice, within 5 days of the issuance of the Initial Order, of the CCAA Proceedings to all known creditors of the Company;
  - (iii) Establishing a website at [www.richter.ca/en/insolvency-cases/k/kk-precision-inc](http://www.richter.ca/en/insolvency-cases/k/kk-precision-inc), where all materials filed with the Court, and all orders made by the Court in connection with the CCAA Proceedings, are available in electronic form;
  - (iv) Implementing procedures for the monitoring of the Company's cash flows and for ongoing reporting of variances to the Cash Flow Forecast (as hereinafter defined);
  - (v) Assisting the Company in preparing communications to its employees regarding the CCAA Proceedings and participating in a meeting with the Company's management team and employees on June 2, 2014, to discuss the CCAA Proceedings, including its impact on employees;
  - (vi) Assisting the Company in preparing its weekly report to Rolls Royce, including an analysis of the production status for component parts to be delivered to Rolls Royce;
  - (vii) Collecting and dispersing monies received, in trust, from Rolls Royce to the Company in accordance with the terms of the Rolls Royce accommodation agreement;
  - (viii) Assisting the Company in its discussions and negotiations with both Siemens and Pratt regarding the terms of their respective accommodation agreements;

- (ix) Considering processes to market the Company's business and/or assets for sale and assisting the Company in developing the Solicitation Process and communications with interested parties;
- (x) Attending frequently at the Premises and meeting with the Company's management team to discuss the Company's operations and the CCAA Proceedings;
- (xi) Corresponding and communicating extensively with the Company and its legal counsel;
- (xii) Corresponding and communicating with the Bank of Montreal ("BMO"), the Company's secured lender, and their legal counsel;
- (xiii) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
- (xiv) Assisting the Company in its discussions and negotiations with Infinity regarding the LSA;
- (xv) Assisting the Company and facilitating discussions and negotiations between the Company and the Landlord regarding the Premises; and
- (xvi) Preparing reports to the Court, as required.

**Cash Flow for the Period from May 10, 2014 to July 18, 2014**

9. The Company's cash flow projection for the period May 10, 2014 to September 19, 2014 (the "**Cash Flow Forecast**") was filed with the Court as part of the Company's CCAA application materials. The Monitor reported on the Company's cash flows for the period from May 10, 2014 to June 13, 2014, in its first report dated June 24, 2014 (the "**First Report**").



10. A comparison of the Company's budget to actual results for the 10 weeks ended July 18, 2014, is summarized as follows:

KK Precision Inc. Cash Flow Variance Analysis 10 Weeks Ended July 18th (\$000's)			
	Forecast	Actual	Variance
	18-Jul	18-Jul	\$
<b>Cash Receipts</b>			
Operating Cash Receipts	\$ 4,982	\$ 2,810	\$ (2,172)
Other	134	64	(70)
<b>Total Cash Receipts</b>	<b>\$ 5,116</b>	<b>\$ 2,874</b>	<b>\$ (2,242)</b>
<b>Cash Disbursements</b>			
Operating Expenses	(520)	(436)	84
Payroll & Benefits	(682)	(651)	30
Retention Payments	(134)	(158)	(23)
Rent & Property Taxes	(223)	(223)	-
Utilities & Insurance	(72)	(16)	57
Sales Tax Remittances	(214)	-	214
Professional Fees	(352)	(279)	73
Other	(211)	-	211
<b>Total Disbursements</b>	<b>\$ (2,408)</b>	<b>\$ (1,763)</b>	<b>\$ 646</b>
<b>Net Cash Flow</b>	<b>\$ 2,708</b>	<b>\$ 1,111</b>	<b>\$ (1,597)</b>
<b>Cash - Opening Balance</b>	<b>\$ 432</b>	<b>\$ 510</b>	<b>\$ 78</b>
<b>Cash - Closing Balance</b>	<b>\$ 3,140</b>	<b>\$ 1,621</b>	<b>\$ (1,519)</b>

11. As reflected in the above summary table, the Company generated net cash flow of approximately \$1.1 million and had approximately \$1.6 million on hand, net of outstanding cheques, as at July 18, 2014.
12. The principal reasons for the \$1.6 million unfavorable net cash flow variance are:
- (i) The negative variance of approximately \$2.2 million in receipts is due primarily to timing differences related to the delivery of manufactured component parts for Rolls Royce and delays in finalizing the accommodation agreements with Siemens and Pratt. The timing differences related to the delivery of manufactured component parts for Rolls Royce have been largely caused by third party suppliers (the "Suppliers") of required services to the Company (many of which are also creditors of the Company) either suspending the completion of further services to the Company or withholding the release of finished materials to the Company until their claims against the Company had been settled. The Company, with the assistance of Rolls Royce, resolved the issues with the Company's Suppliers and the

Company is working on accelerating its production activities, which is expected to result in the negative variance in receipts reversing by August 30, 2014 (the end date for the Company's production activities). No payments of pre-filing accounts payable were made in order to secure the cooperation of Suppliers; and

- (ii) The positive variance of approximately \$0.6 million in disbursements is due primarily to lower than projected operating expenses and timing differences related to the payment of certain other expenses, including professional fees.

- 13. The Monitor is of the view that the Company is acting in a manner consistent with its Cash Flow Forecast and there have been no material adverse changes to the Company's operations since the commencement of the CCAA Proceedings. Since the issuance of the Initial Order, the Company has been paying all suppliers based on negotiated terms or upon receipt of invoices. The Company advises that it has not incurred significant unpaid liabilities since the commencement of the CCAA Proceedings.

#### **The Solicitation Process**

- 14. As noted in the First Report, the Company completed a comprehensive sales process from February to April 2014 (the "**Initial Sales Process**") that generated interest from several parties, but did not result in a firm deal for the sale of the Company's business and/or assets. As such, given the Company's limited liquidity and the fast approaching expiration of the lease for the Premises, the Company, with the assistance of the Monitor, undertook a short sales process as a means of testing the market, gauging interest in the Company and/or its assets, and determining whether a transaction that would result in greater than liquidation value was available.
- 15. The purpose of the Solicitation Process was to identify one or more purchasers for the Company's business and/or assets. The key aspects of the Solicitation Process and its results are summarized as follows:
  - (i) The Company, in consultation with the Monitor, assembled a list of potential interested parties, including many of the strategic/financial parties that participated in the Initial Sales Process and parties that regularly liquidate assets in insolvency proceedings (collectively, the "**Prospective Purchasers**");

- (ii) On June 16, 2014, the Company distributed an offer solicitation letter to the Prospective Purchasers detailing the opportunity to purchase the Company's business and/or assets (the "**Offer Solicitation Letter**"). Included with the Offer Solicitation Letter was a schedule detailing the Company's machinery/equipment. In total, the Company contacted fifty-four (54) parties to advise of the opportunity to acquire the Company and/or its assets. A copy of the Offer Solicitation Letter is attached as Exhibit "B" to the affidavit of Garth Wheldon sworn July 25, 2014, in support of the Company's motion returnable August 1, 2014 (the "**July 25 Wheldon Affidavit**");
- (iii) Prospective Purchasers interested in obtaining additional information regarding the Company's business were required to execute a confidentiality agreement ("**CA**") in order to obtain additional information on the Company's operations. One (1) party executed the CA and was provided with additional information on the Company's operations;
- (iv) The Company, with the assistance of the Monitor, facilitated due diligence efforts by, among other things, coordinating meetings between Prospective Purchasers and the Company and/or scheduling site visits to view and inspect the Company's machinery/equipment;
- (v) Prospective Purchasers were required to submit offers for the Company and/or its assets on or before 5:00 p.m. (Eastern Standard Time) on July 7, 2014 (the "**Offer Deadline**");
- (vi) Six (6) offers (the "**Offers**") to purchase and/or auction the Company's assets were received prior to the Offer Deadline;
- (vii) The Monitor reviewed the Offers with the Company and prepared a schedule summarizing/comparing the Offers (the "**Offer Summary**"). In the event that this Court grants the Approval and Vesting Order, but the Transaction does not close, the Company is of the view that efforts to remarket its assets may be impaired if the Offer Summary and the LSA, which are attached as Confidential Exhibits "1" and "2" to the July 25 Wheldon Affidavit, are made public at this time. In the circumstances, the Monitor believes that it is appropriate for the Offer Summary and the unredacted LSA to be filed with the Court on a confidential basis and sealed until the closing of the Transaction or upon further order of this Court.

## The Transaction

16. Following its review of the Offers, on or about July 11, 2014, the Company and the Monitor contacted Infinity to advise that the Company wished to proceed with its proposal to sell and/or auction the Company's machinery/equipment. Subsequent to notifying Infinity of the Company's desire to proceed with its offer, the Company and its legal counsel, and the Monitor have been working with Infinity and its legal counsel to negotiate a definitive LSA.
17. On July 25, 2014, the Company and Infinity executed an LSA in respect of the Assets.
18. Key elements of the Transaction are as follows:
  - (i) The Assets are to be sold by private and/or public auction/liquidation sales to be conducted from the Premises;
  - (ii) The Assets are to be removed from the premises by no later than September 30, 2014. Following the auction, the Company and Infinity will work cooperatively with each other so that Infinity can efficiently facilitate the removal of the Assets and the Company can complete its remediation obligations with respect to the Premises;
  - (iii) The Assets are being sold on an "as is, where is" basis with no covenants, representations, or warranties of any kind whatsoever, either stated or implied, including, without limitation, as to description, fitness for purpose, suitability, quantity, condition, quality, suitability, durability or marketability;
  - (iv) Within two (2) business days following the execution of the LSA, Infinity is to provide the Company with the deposit monies referred to in the LSA to be held by the Company and credited toward payment of the net minimum guarantee ("**NMG**"). The balance of the NMG is to be paid to the Company two (2) business days prior to the auction date;
  - (v) Infinity is entitled to charge and collect a buyer's premium on the Asset sales, the payment of which shall not impact or otherwise detract from the NMG;
  - (vi) Where the net sale proceeds are greater than the NMG, the excess, up to the expense amount referred to in the LSA, is to be paid to Infinity, with the remaining balance paid to the Company;

- (vii) The Transaction is subject to Court approval and the issuance of the Approval and Vesting Order.

19. The Monitor is of the opinion that the Transaction represents the best recovery for the Assets in the circumstances and satisfies the factors to be considered pursuant to section 36(3) of the CCAA. In particular, the Monitor is of the view that:

- (i) The Solicitation Process for the Assets was reasonable in the circumstances and approved by the Court;
- (ii) The Company's limited liquidity coupled with the fact that the lease for the Premises expires on September 30, 2014, substantially eliminates an opportunity to further market the Assets for sale without putting the Transaction at risk and impairing recoveries;
- (iii) The further remarketing of the Assets would not likely result in greater realizations, as the market has been extensively canvassed and all likely bidders have already been provided with an opportunity to bid on the Assets;
- (iv) The Transaction represents the best and highest offer received by the Company for the Assets; and
- (v) BMO was consulted in connection with the Transaction and supports the Transaction.

#### **The Premises**

- 20. As noted in the First Report, the lease for the Premises expired on April 30, 2014. Prior to the commencement of the CCAA Proceedings, the Company negotiated a lease extension which runs until September 30, 2014 (the "**Lease Extension**"). Subsequent to entering into the Lease Extension, the Premises were sold to 2215225.
- 21. As also noted in the First Report, in consideration of the timeframe to vacate the Premises following the completion of its production activities, the Company and the Monitor approached the Landlord regarding a possible one-month lease extension for the Premises. On June 16, 2014, the Landlord informed the Company of the terms upon which it would agree to a one-month lease extension to October 31, 2014, which terms were unacceptable to the Company. On June 19, 2014, the Company was informed by the Landlord that it was not prepared to consider a further lease extension beyond September 30, 2014, as the Landlord had other uses for the Premises that are expected to commence October 1, 2014.

22. Following completion of the Solicitation Process and the Company's selection of Infinity as the successful bidder, the Company and the Landlord (with the assistance of the Monitor) have been communicating regarding (i) the Company's requirement to vacate the Premises, including the completion of any required repairs and/or remediation activities, by September 30, 2014, (ii) the Landlord's concerns that the Company will not be able to fulfill its obligations to restore the Premises to an acceptable condition prior to September 30, 2014, and (iii) the possibility of a brief lease extension beyond September 30, 2014.
23. On July 18, 2014, Mr. D. Ullmann of Minden Gross LLP, solicitor for the Landlord, emailed the Monitor and the Company (the "**Landlord's July 18 Email**") to outline the Landlord's position regarding the items that, in the Landlord's view, need to be repaired or restored in accordance with the Company's lease obligations for the Premises (the "**Landlord's Repair List**"). A copy of the Landlord's July 18 Email is attached as Exhibit "E" to the July 25 Wheldon Affidavit. As noted in the Landlord's July 18 Email, the Landlord estimated the aggregate cost to complete the Landlord's Repairs List to be at least \$500,000.
24. On July 24, 2014, the Company, via its solicitor, Dentons Canada LLP, responded to the Landlord's July 18 Email (the "**Company's July 24 Correspondence**") to advise that the Company disagreed with many of the items included on the Landlord's Repair List. The Company's July 24 Correspondence also detailed those repairs which the Company believed it was responsible to complete (the "**Company's Repair List**"), as per its lease obligations for the Premises, and confirmed that, in the Company's view, the \$100,000 security deposit currently being held by the Landlord is sufficient to complete the items included in the Company's Repair List. A copy of the Company's July 24 Correspondence is attached as Exhibit "F" to the July 25 Wheldon Affidavit.
25. The Monitor understands that the lease agreement (including subsequent amendments thereto) between the Company and 104 Oakdale Acquisition Corp., the former landlord for the Premises, dated September 1, 2011 (the "**Lease**") governs, *inter alia*, the Company's responsibilities upon the termination of the Lease and the surrender of the Premises to the Landlord. The Monitor further understands that the Company's position is that, the Lease (a copy of which is attached as Exhibit "D" to the July 25, Wheldon Affidavit) states that the Company is required to restore the Premises to the same state of repair and cleanliness that it was in at the commencement of the Lease in September 2011, reasonable wear and tear excepted.

26. Based on information provided by the Company to the Monitor, including the dates that certain improvements and/or alterations to the Premises were completed, it appears that, based on the Company's interpretation of the Lease, certain of the items included in the Landlord's Repair List relate to the remediation and/or removal of improvements or alterations to the Premises that were in place prior to the commencement of the Lease in September 2011.
27. With respect to the Landlord's concerns regarding the Company's ability to complete the necessary repairs prior to September 30, 2014, the LSA confirms that the Company and Infinity will be working cooperatively with each other to ensure that Infinity can efficiently facilitate the removal of the Assets from the Premises and the Company can complete its remediation obligations with respect to the Premises. In addition, based on information provided by the Company to the Monitor, including estimates for certain repairs to be completed by third parties, it appears that the Company has developed a reasonable plan to ensure all of the items included on the Company's Repair List should be completed prior to the expiration of the Lease.

**Monitor's Conclusions and Recommendation**

28. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Order(s) granting the relief detailed in paragraph 4(viii) of this Report.

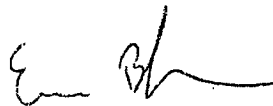
All of which is respectfully submitted this 25<sup>th</sup> day of July, 2014.

**Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.**

Per:



Adam Sherman, MBA, CIRP



Eric Barbieri, CPA, CA

## **APPENDIX A**

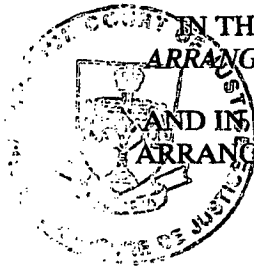


**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR.  
JUSTICE WILTON-SIEGEL

)  
)  
)

WEDNESDAY, THE 25<sup>th</sup>  
DAY OF JUNE, 2014



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

**ORDER**

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

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

**SERVICE**

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

## **STAY EXTENSION**

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

## **SOLICITATION PROCESS**

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

## **ACCOMMODATION AGREEMENTS**


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

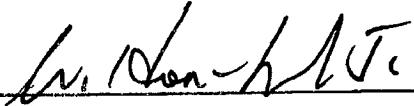
thereto and the unredacted Pratt Accommodation Agreement and the schedules thereto be kept sealed pending further Order of the Court.

**GENERAL**

8. **THIS COURT ORDERS** that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder, including without limitation in connection with any matters relating to the Siemens Accommodation Agreement, the Pratt Accommodation Agreement, or the Solicitation Process.
9. **THIS COURT ORDERS** that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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

 JUN 25 2014

  
\_\_\_\_\_

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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**ORDER**  
(June 25, 2014)

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

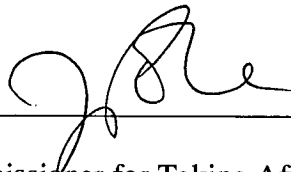
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*Solicitors for the Applicant*

**TAB H**

Exhibit "H" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.



---

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

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

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

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

**SUPPLEMENT TO THE SECOND REPORT OF**  
**RICHTER ADVISORY GROUP INC.**  
**IN ITS CAPACITY AS MONITOR OF**  
**KK PRECISION INC.**

July 31, 2014

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

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

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

**INDEX**

**Tab**

**Document**

1

Supplement to the Second Report of Richter Advisory Group Inc. in its  
capacity as monitor of KK Precision Inc. dated July 31, 2014

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Toronto, ON M5J 2T3  
[www.richter.ca](http://www.richter.ca)

**KK PRECISION INC.**

**SUPPLEMENT TO THE SECOND REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**JULY 31, 2014**

**Table of Contents**

Introduction..... 1  
Purpose of this Report..... 2  
Terms of Reference..... 2  
The Landlord..... 2  
Monitor's Conclusions and Recommendation..... 5

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

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

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

SUPPLEMENT TO THE SECOND REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.

July 31, 2014

**Introduction**

1. On May 30, 2014, the *Ontario* Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting KK Precision Inc. (the "**Company**") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed the Company's monitor (the "**Monitor**"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014 (the "**Stay Period**"). The proceedings commenced by the Company under the CCAA are herein referred to as the "**CCAA Proceedings**".
2. On June 25, 2014, the Court issued an order (the "**June 25 Order**"), among other things, extending the Stay Period to September 19, 2014, and approving the process commenced by the Company to solicit offers for the Company's business and/or assets (the "**Solicitation Process**"). A copy of the June 25 Order is attached as Appendix "A" to the Monitor's second report dated July 25, 2014 (the "**Second Report**"). The Second Report was filed in support of the Company's motion returnable August 1, 2014 seeking, among other things, the Court's approval of the proposed liquidation of the Company's machinery and equipment (the "**Assets**") by Infinity Asset Solutions Inc. ("**Infinity**") and the Liquidation Services Agreement ("**LSA**") dated July 25, 2014 between the Company and Infinity (the "**Transaction**").

3. The principal purpose of the CCAA Proceedings is to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down includes production activities for a period of time to, among other things, permit key customers the opportunity to source alternative supply, and to carry out a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.

#### **Purposes of this Report**

4. The purpose of this report (the "**Supplemental Second Report**") is to provide additional information to the Court in connection with the Transaction and address certain of the concerns raised by 2215225 Ontario Inc. ("**2215225**" or the "**Landlord**") in the affidavit of T.J. Tersigni sworn July 30, 2014 (the "**Tersigni Affidavit**"), regarding both the Transaction and the requirement for the Company to vacate the premises located at 104 Oakdale Road, Toronto, Ontario (the "**Premises**") and complete all necessary and required repairs to the Premises, as per its lease obligations, by September 30, 2014.

#### **Terms of Reference**

5. In preparing this Supplemental Second Report, the Monitor has relied on the Company's books and records, and discussions with management, the Company's advisors, Infinity and its advisor and the Landlord and its advisor. The Monitor has not conducted an audit or other verification of such information.
6. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

#### **The Landlord**

7. As noted in the Second Report, the lease for the Premises expired on April 30, 2014 (the "**Lease**"). Prior to the commencement of the CCAA Proceedings, the Company negotiated a lease extension with the former owner of the Premises, which runs until September 30, 2014 (the "**Lease Extension**"). Subsequent to entering into the Lease Extension and after the commencement of the CCAA Proceedings, the Premises were sold to 2215225 on June 2, 2014.
8. As also noted in the Second Report, following completion of the Solicitation Process and the Company's selection of Infinity as the successful bidder, the Company and the Landlord (with the assistance of the Monitor) have been communicating regarding (i) the Company's requirement to vacate the Premises, including the completion of any required repairs and/or remediation activities, by September 30, 2014, (ii) the Landlord's concerns that the Company will not be able to fulfill its



obligations to restore the Premises to an acceptable condition prior to September 30, 2014, and (iii) the possibility of a brief lease extension beyond September 30, 2014.

9. The Landlord and the Company exchanged correspondence dated July 18, 2014 and July 24, 2014, respectively, which correspondence outlined the positions of each of the Landlord and the Company regarding the Company's obligations to repair and restore the Premises in accordance with the terms of the Lease and Lease Extension.
10. As noted in the Second Report, the Company disagreed with many of the repairs and the estimated costs to complete the various repairs that, in the Landlord's view, needed to be completed by the Company prior to it vacating the Premises at the expiration of the Lease Extension.
11. The Landlord's above concerns were reiterated and further detailed in the Tersigni Affidavit which, among other things, outlines the Landlord's opposition to the Court's approval of the Transaction and the LSA (in its current form), and requests that the Court grant a priority charge over the sale proceeds in the amount of \$500,000 in favour of the Landlord, to be held by the Monitor, pending the resolution of the issues between the Landlord and the Company.
12. With respect to the Landlord's concerns raised in the Tersigni Affidavit, the Monitor advises the Court as follows:
  - (i) The Landlord has expressed concerns regarding the proposed timeline for the liquidation of the Assets and the Company's ability to comply with its obligations under the Lease and the Lease Extension. The Landlord also claims that proposed liquidators, and Infinity, share the Landlord's view and Infinity offered the Landlord \$150,000 for a one-month lease extension;
  - (ii) During the Solicitation Process and the negotiation of the LSA, the Monitor had many discussions with Infinity and its advisor regarding the proposed timeline for liquidating the Assets, including the time required to remove the Assets from the Premises and repair/remediate the Premises in accordance with the Company's view as to its obligations under the Lease and Lease Extension;
  - (iii) Although the Company, the Monitor and Infinity acknowledge that additional time to complete the liquidation of the Assets, including the removal of the Assets from the Premises, would be advantageous, Infinity has maintained from the outset of the Solicitation Process that not only will it be able to complete the liquidation and removal of the Assets from the Premises within the required time period, but that it will also work cooperatively with the Company during the

post-auction period so that Infinity can efficiently facilitate the removal of the Assets and the Company can complete its remediation obligations with respect to the Premises prior to vacating the Premises on September 30, 2014;

- (iv) In addition, the Monitor understands that certain of the repairs the Company has agreed to undertake are expected to be completed in August 2014, with other agreed upon repairs to be completed in September 2014;
- (v) The Monitor further understands that, in the Company's view, the only repair/remediation work to be completed following the removal of the Assets from the Premises is the infill of the seven (7) pits located under certain of the Assets (the "Pits"). With respect to the repair/remediation of the Pits, the Monitor has been informed by Infinity that following the liquidation of the Assets it will be undertaking a staged removal of the Assets from the Premises, which will permit the Company to complete those repairs the Company believes it is obligated to complete under the Lease and the Lease Extension, including the repair/remediation of the Pits, by September 30, 2014. In this regard, the Monitor confirms that the Company has obtained a quote for the repair/remediation of the Pits, by the company that installed the Pits, during the period from September 27, 2014 to September 30, 2014;
- (vi) Based on its previous experiences with Infinity and Infinity's reputation in the marketplace, the Monitor is of the view that Infinity has extensive experience and an established team of professionals skilled at the auction/liquidation of industrial machinery and equipment. The Monitor understands that the proposed auction date and timeline for removal of the Assets has been established by Infinity based on its professional experience and with full knowledge of the Company's obligation to complete the liquidation of the Assets, remove the Assets from the Premises and repair/remediate the Premises by September 30, 2014. The Monitor, in other capacities, has previously worked with Infinity and the Monitor can attest that, in those situations, Infinity conducted its work in a professional, well organized manner;
- (vii) Notwithstanding the Landlord's concerns regarding the ability of Infinity to complete the liquidation of the Assets, including the removal of the Assets and the repair/remediation of the Premises, the Monitor notes that in addition to Infinity's offer, four (4) other offers to liquidate the Assets were received from parties that regularly liquidate assets in insolvency proceedings with full knowledge of the Company's obligation to vacate the Premises by September 30, 2014;

- (viii) The Landlord has expressed that, should the LSA be approved (in its current form), the Company will not be able to meet its obligations to the Landlord, as per the Lease and the Lease Extension. In this regard, the Tersigni Affidavit states that the LSA provides that, among other things, Infinity has until September 30, 2014 to remove the Assets from the Premises, and Infinity is permitted to leave certain assets at the Premises;
- (ix) Although the LSA permits Infinity until September 30, 2014 to remove the Assets from the Premises, as noted above, the LSA confirms that Infinity will work cooperatively with the Company during the post-auction period so that Infinity can efficiently facilitate the removal of the Assets from the Premises and the Company can complete its remediation obligations with respect to the Premises. Infinity has advised the Monitor that it will have the Assets removed from the Premises in time for the Company to complete any unfinished repairs/remediation to the Premises prior to September 30, 2014; and
- (x) In addition, although the LSA makes reference to certain assets that are to be excluded from the liquidation sale (the "**Excluded Assets**"), and which Infinity will have no responsibility to remove from the Premises, the Excluded Assets consist of assets that have been sold or are subject to sale to other parties and/or leased assets. The Company has informed the Monitor that arrangements will be made to ensure that the Excluded Assets are removed from the Premises prior to September 30, 2014.

#### **Monitor's Conclusions and Recommendations**

13. As noted in the Second Report, the Monitor is of the opinion that the Transaction represents the best recovery from the Assets for the Company's stakeholders in the circumstances.
14. Given the Company's requirement to vacate the Premises by September 30, 2014, the Monitor is of the view that, should the Transaction and LSA not be approved, the Company would not be in a position to further market the Assets for sale without putting the Transaction at risk and impairing recoveries.
15. As noted above, although the Company, the Monitor and Infinity agree that additional time would be advantageous, the Company and Infinity appear to have developed a reasonable plan to complete the liquidation of the Assets, remove the Assets from the Premises and complete those repairs to the Premises that the Company believes it is obligated to complete under the Lease and the Lease Extension by September 30, 2014.

16. Based on the foregoing and the Second Report, the Monitor continues to respectfully recommend that this Honourable Court make the Order(s) granting the relief sought by the Company in its motion returnable August 1, 2014, including the approval of the Transaction and the LSA.

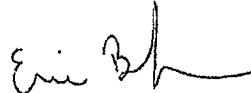
All of which is respectfully submitted this 31<sup>st</sup> day of July, 2014.

**Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.**

Per:



Adam Sherman, MBA, CIRP



Eric Barbieri, CPA, CA

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

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

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

Proceedings commenced at TORONTO

**SUPPLEMENT TO THE  
SECOND REPORT OF  
RICHTER ADVISORY GROUP INC.  
IN ITS CAPACITY AS  
MONITOR OF  
KK PRECISION INC.**

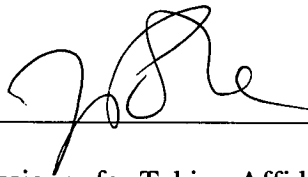
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# TAB I

Exhibit "I" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read 'JL Poole', written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

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

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

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

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

**THIRD REPORT OF**  
**RICHTER ADVISORY GROUP INC.**  
**IN ITS CAPACITY AS MONITOR OF**  
**KK PRECISION INC.**

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**KK PRECISION INC.**

**THIRD REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**SEPTEMBER 10, 2014**

## Table of Contents

Introduction.....	1
Purpose of this Report.....	2
Terms of Reference.....	3
The Company's Activities .....	3
The Monitor's Activities.....	4
Cash Flow for the Period May 10, 2014 to September 5, 2014.....	5
Extended Cash Flow Forecast for the Period September 6, 2014 to November 28, 2014.....	6
Negotiations/Discussions between the Company and the Landlord regarding the Premises.....	7
The Company's request for Approval to Make an Interim Distribution to the Secured Lenders.....	9
The Company's request for an Extension of the Stay of Proceedings to November 28, 2014.....	12
Monitor's Conclusions and Recommendation.....	14

## Table of Appendices

Appendix A	Order of The Honourable Mr. Justice Wilton-Siegel dated June 25, 2014
Appendix B	Order of The Honourable Mr. Justice Penny dated August 5, 2014
Appendix C	Second Report of the Monitor dated July 25, 2014 (excluding Appendix)
Appendix D	The Company's Extended Cash Flow Forecast for the Period September 6, 2014 to November 28, 2014
Appendix E	Affidavit of T.J. Tersigni sworn July 30, 2014
Appendix F	Supplement to the Second Report of the Monitor dated July 31, 2014
Appendix G	Phase I Site Assessment Report prepared by Conestoga-Rovers & Associates
Appendix H	Phase II Site Assessment Report prepared by Conestoga-Rovers & Associates

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

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

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

THIRD REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.

September 10, 2014

**Introduction**

1. On May 30, 2014, the Ontario Superior Court of Justice (Commercial List) (the "Court") issued an order (the "Initial Order") granting KK Precision Inc. (the "Company") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA"). Pursuant to the Initial Order, Richter Advisory Group Inc. ("Richter") was appointed the Company's monitor (the "Monitor"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings (the "Stay Period") until June 29, 2014. The proceedings commenced by the Company under the CCAA are herein referred to as the "CCAA Proceedings".
2. The principal purpose of the CCAA Proceedings was to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down included production activities for a period of time to, among other things, permit key customers the opportunity to source alternative supply, and a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.
3. On June 25, 2014, the Court issued an order (the "June 25 Order"), among other things, extending the Stay Period to September 19, 2014, and approving the process commenced by the Company to solicit offers for the Company's business and/or assets. A copy of the June 25 Order is attached hereto as **Appendix "A"**.

4. On August 5, 2014, the Court issued an order (the "**August 5 Order**"), among other things, approving a Liquidation Services Agreement ("**LSA**") entered into between the Company and Infinity Asset Solutions Inc. ("**Infinity**") to complete an auction of the Company's machinery and equipment (the "**Auction**"). A copy of the August 5 Order is attached hereto as **Appendix "B"**.

**Purpose of this Report**

5. The purpose of this report (the "**Third Report**") is to provide information to the Court in respect of the following:
  - (i) The activities of the Company and the Monitor since July 25, 2014 (the date of the Second Report of the Monitor) to the date of this Third Report;
  - (ii) The Company's actual cash flows for the period from May 10, 2014 to September 5, 2014, including a comparison of actual to forecast results;
  - (iii) The Company's extended cash flow forecast for the period September 6, 2014 to November 28, 2014 (the "**Extended Cash Flow Forecast**");
  - (iv) The status of discussions/negotiations between the Company and 2215225 Ontario Inc. ("**2215225**" or the "**Landlord**") regarding the Company's leased premises located at 104 Oakdale Road, Toronto, Ontario (the "**Premises**");
  - (v) The Monitor's review of the validity and enforceability of the security granted by the Company in favour of the Bank of Montreal ("**BMO**") and BMO Capital Partners (the "**Subordinate Lender**", and together with BMO, the "**Secured Lenders**") and the opinion thereon of the Monitor's independent legal counsel, Chaitons LLP ("**Chaitons**");
  - (vi) The Company's request to make an interim distribution to the Secured Lenders, subject to withholding sufficient monies to satisfy, among other things, any additional post-filing obligations incurred prior to the completion of the Company's CCAA Proceedings; and
  - (vii) The Company's request for an extension of the Stay Period to November 28, 2014.



### Terms of Reference

6. In preparing this Third Report, the Monitor has relied on, among other things, unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. The Monitor has not conducted an audit or other verification of such information.
7. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

### The Company's Activities

8. The activities of the Company since the commencement of the CCAA Proceedings to July 25, 2014 are detailed in the Monitor's Second Report dated July 25, 2014 (the "**Second Report**"). A copy of the Second Report (without appendices) is attached hereto as **Appendix "C"**. Subsequent to the filing of the Second Report, the Company's activities have included:
  - (i) Continuing to manufacture component parts and supply goods to Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "**Rolls Royce**"), Siemens Energy Inc. ("**Siemens**") and Pratt & Whitney Canada Corp. ("**Pratt**") in accordance with the terms of separate accommodation agreements between the Company and Rolls Royce, Siemens and Pratt (collectively, the "**Accommodation Agreements**"). As at the date of this Third Report, and in accordance with the Accommodation Agreements, all production activities in that regard have ceased and the Company is in the final stages of winding down its operations;
  - (ii) Preparing weekly production reports for Rolls Royce in accordance with the terms of the Rolls Royce accommodation agreement;
  - (iii) Continuing to communicate with the Landlord and its counsel regarding the Company's lease for the Premises, in which the lease term expires on September 30, 2014;
  - (iv) Undertaking and contracting for certain repairs to the Premises in anticipation of the Company vacating the Premises by no later than September 30, 2014;
  - (v) Continuing to communicate with key suppliers to secure goods and services during the CCAA Proceedings and to address payment terms;
  - (vi) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;

- (vii) Reporting receipts and disbursements;
- (viii) Making payments to suppliers for goods and services received following the issuance of the Initial Order;
- (ix) Preparing the Extended Cash Flow Forecast;
- (x) Working cooperatively with Infinity to prepare for the Auction, which is scheduled to take place on September 10, 2014; and
- (xi) Consulting with the Monitor on various matters in connection with the CCAA Proceedings.

#### **The Monitor's Activities**

9. The activities of the Monitor from the commencement of the CCAA Proceedings up to July 25, 2014 are detailed in the Second Report. Subsequent to the filing of its Second Report, the Monitor's activities have included:
- (i) Assisting the Company in preparing its weekly report to Rolls Royce, including an analysis of the production status for component parts delivered to Rolls Royce;
  - (ii) Collecting and dispersing monies received, in trust, from Rolls Royce to the Company in accordance with the terms of the Rolls Royce accommodation agreement;
  - (iii) Assisting the Company in coordinating with Siemens and Pratt relative to the shipment of parts and subsequent collection of receivables pursuant to the respective accommodation agreements;
  - (iv) Attending frequently at the Company's Premises and meeting with the Company's management team to discuss the Company's operations and the CCAA Proceedings;
  - (v) Corresponding and communicating extensively with the Company and its legal counsel;
  - (vi) Corresponding and communicating with the Secured Lenders and their legal counsel;
  - (vii) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;

- (viii) Assisting the Company in its discussions and negotiations with Infinity regarding the LSA and the Auction;
- (ix) Assisting the Company with the preparation of the Extended Cash Flow Forecast;
- (x) Assisting the Company and facilitating discussions and negotiations between the Company and the Landlord regarding the Premises; and
- (xi) Preparing this Third Report.

**Cash Flow for the Period from May 10, 2014 to September 5, 2014**

- 10. The Company's cash flow projection for the period May 10, 2014 to September 19, 2014 (the "Initial Cash Flow Forecast") was filed with the Court as part of the Company's CCAA application materials. The Monitor reported on the Company's cash flows for the period from May 10, 2014 to July 18, 2014 in its Second Report.
- 11. A comparison of the Company's budget to actual results for the 17 weeks ended September 5, 2014 is summarized as follows:

<b>KK Precision Inc.</b>			
<b>Cash Flow Variance Analysis</b>			
<b>17 Weeks Ended September 5th</b>			
<b>(\$000's)</b>	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
	<b>05-Sep</b>	<b>05-Sep</b>	<b>\$</b>
<b><u>Cash Receipts</u></b>			
Operating Cash Receipts	\$ 6,744	\$ 5,910	\$ (834)
Other	412	207	(205)
<b>Total Cash Receipts</b>	<b>\$ 7,156</b>	<b>\$ 6,117</b>	<b>\$ (1,039)</b>
<b><u>Cash Disbursements</u></b>			
Operating Expenses	(865)	(749)	116
Payroll & Benefits	(1,196)	(1,091)	106
Retention Payments	(412)	(446)	(35)
Rent & Property Taxes	(223)	(223)	-
Utilities & Insurance	(116)	(57)	59
Sales Tax Remittances	(445)	(64)	381
Professional Fees	(485)	(409)	76
Other	(410)	(95)	315
<b>Total Disbursements</b>	<b>\$ (4,151)</b>	<b>\$ (3,134)</b>	<b>\$ 1,017</b>
<b>Net Cash Flow from Operations</b>	<b>\$ 3,005</b>	<b>\$ 2,983</b>	<b>\$ (22)</b>
<b>Cash Flow from Asset Sales</b>	<b>n/a</b>	<b>1,006</b>	<b>n/a</b>
<b>Cash - Opening Balance</b>	<b>\$ 432</b>	<b>\$ 510</b>	<b>\$ 78</b>
<b>Cash - Closing Balance</b>	<b>\$ 3,437</b>	<b>\$ 4,499</b>	<b>\$ 1,063</b>

12. As reflected in the above summary table, the Company generated net cash flow of approximately \$3.0 million from operations and had approximately \$4.5 million on hand, net of outstanding cheques, as at September 5, 2014.
13. Although, as reflected in the above summary table, the Company's cumulative net cash flow for the period ending September 5, 2014 was consistent with the Initial Cash Flow Forecast, variances occurred in both the Company's receipts and disbursements. The principal reasons for these variances are as follows:
  - (i) The negative variance of approximately \$1.0 million in operating receipts is due to timing differences related to the delivery of manufactured component parts for Rolls Royce, and the release of associated proceeds funded by Rolls Royce to the Monitor. As of September 5, 2014, the Company had completed all shipments of component parts to Rolls Royce in accordance with the accommodation agreement, the total value of which was consistent with the forecast. The Monitor is currently holding approximately \$1.5 million in trust which is expected to be released to the Company following a final reconciliation approved by the Company and Rolls Royce; and
  - (ii) The positive variance of approximately \$1.0 million in disbursements includes timing differences related to sales tax remittances and professional fees, as well as permanent favorable variances in operating expenses and payroll costs.
14. The Monitor is of the view that the Company is acting in a manner consistent with its Initial Cash Flow Forecast and there have been no material adverse changes to the Company's operations since the commencement of the CCAA Proceedings. Since the issuance of the Initial Order, the Company has been paying all suppliers based on negotiated terms or upon receipt of invoices. The Company advises that it has not incurred significant unpaid liabilities since the commencement of the CCAA Proceedings.

**Extended Cash Flow Forecast for the Period September 6, 2014 to November 28, 2014**

15. The current Stay Period expires on September 19, 2014. The Company is seeking an extension of the Stay Period to November 28, 2014 (discussed further below).
16. In support of this request, the Company, with the assistance of the Monitor, has prepared the Extended Cash Flow Forecast, which is attached hereto as **Appendix "D"**.

17. As noted in paragraph 8 above, the Company has ceased all production activities and has been finalizing the wind-down of its operations and working cooperatively with Infinity to prepare for the Auction that is scheduled for September 10, 2014. As such, the Extended Cash Flow Forecast has been prepared taking into consideration the projected additional receipts to be collected from both Rolls Royce (through the Monitor) and Infinity, as well as the projected expenses to complete the wind down of the Company's operations and make any required repairs to the Premises prior to vacating the Premises on September 30, 2014.
18. In connection with the above, and as provided for in the Extended Cash Flow Forecast, the Monitor confirms that, on September 8, 2014, the Company received the net minimum guarantee provided for in the LSA and that, as at September 9, 2014, the Company had approximately \$7.76 million of cash on hand, net of outstanding cheques.
19. Based on the Extended Cash Flow Forecast, following completion of its wind-down, the Company estimates that it will have approximately \$8.2 million available for distribution to its creditors, which is insufficient to repay, in full, the amounts owing to the Secured Lenders. As the Secured Lenders are projected to incur a substantial shortfall on the amounts owing to them, there will be insufficient monies to make any distribution to any of the Company's other creditors ranking behind the Secured Lenders.

#### **Negotiations/Discussions between the Company and the Landlord regarding the Premises**

20. As noted in the Monitor's prior reports in connection with the CCAA Proceedings, the lease for the Premises expired on April 30, 2014 (the "**Lease**"). Prior to the commencement of the CCAA Proceedings, the Company negotiated a lease extension with the former owner of the Premises, which runs until September 30, 2014 (the "**Lease Extension**"). Subsequent to entering into the Lease Extension and following the commencement of the CCAA Proceedings, the Premises were sold to 2215225.
21. As noted in the Second Report, following the Company's selection of Infinity as the successful bidder for the Company's assets, the Company and the Landlord (with the assistance of the Monitor) have been communicating regarding (i) the Company's requirement to vacate the Premises, including the completion of any required repairs and/or remediation activities, by September 30, 2014, (ii) the Landlord's concerns that the Company will not be able to fulfill its obligations to restore the Premises to an acceptable condition prior to September 30, 2014, and (iii) the possibility of a brief lease extension beyond September 30, 2014.

22. Unfortunately, not only were the Company and the Landlord unable to agree on the terms of a lease extension beyond September 30, 2014, but the Company and the Landlord have also been unable to agree on the scope of the repairs and/or remediation activities required to be completed by the Company prior to it vacating the Premises.
23. As detailed in the Second Report, the Landlord and the Company exchanged correspondence which outlined the positions of each of the Landlord and the Company regarding the Company's obligations to repair/restore the Premises in accordance with the terms of the Lease and Lease Extension.
24. The Landlord's concerns regarding the Premises were further outlined in the affidavit of T.J. Tersigni, President and CEO of 2215225, sworn July 30, 2014 (the "**Tersigni Affidavit**") in response to the Company's motion returnable August 5, 2014. A copy of the Tersigni Affidavit is attached hereto as **Appendix "E"**.
25. In response to the Tersigni Affidavit, the Monitor filed its Supplemental Second Report dated July 31, 2014 (the "**Supplemental Second Report**") to address certain of the concerns raised therein, a copy of which is attached hereto as **Appendix "F"**. As noted in the Supplemental Second Report, the Monitor was of the view that the Company and Infinity appeared to have developed a reasonable plan to complete the Auction, remove the Company's machinery and equipment from the Premises and complete those repairs to the Premises that the Company believed it was obligated to complete under the terms of the Lease and Lease Extension by September 30, 2014.
26. Subsequent to the issuance of the August 5 Order, the Company and the Landlord have continued to exchange correspondence with respect to the Premises. Based on these communications, the Landlord has acknowledged that the Company is undertaking certain repairs at the Premises, but there remains disagreement among the parties as to the scope of the required repairs/remediation. In particular, the Landlord has expressed concerns that the Company was not addressing the potential environmental issues raised by the Landlord.
27. In an effort to alleviate the Landlord's concerns regarding any potential environmental issues at the Premises, the Company has provided the Landlord with copies of the following:
  - (i) A Phase I Site Assessment Report (the "**Phase I Report**") prepared by Conestoga-Rovers & Associates ("**Conestoga**") in August 2011. The Phase I Report, a copy of which is attached hereto as **Appendix "G"**, was based on a visual inspection/historical review of the Premises and identifies any potential areas of environmental impairment; and

- (ii) A Phase II Site Assessment Report (the "**Phase II Report**") completed by Conestoga in July 2013 to address the areas on potential environmental impairment identified in the Phase I Report. The Phase II Report, a copy of which is attached hereto as **Appendix "H"**, was based on the physical testing of the Premises, including the drilling of boreholes to analyze soil and groundwater samples. The Phase II Report concluded that there was no evidence of groundwater or soil impacts and that there was no need for further site assessment or remediation work at the Premises.
28. Given that the Phase II Report was completed approximately one year ago and, based on information received from the Company's management that there have been no significant changes to the Company's operations that would have any negative impact on the environmental situation of the Company since that time, the Company is of the view that a further site assessment is unnecessary.
29. Although the Monitor is uncertain if the Company and the Landlord will be able to resolve the matters that are currently in dispute between them, the Monitor is of the view that the Company has been cooperating with the Landlord throughout the CCAA Proceedings and has been providing the Landlord with updates on the status of repairs/remediation work at the Premises. Furthermore, as stated in the affidavit of G. Wheldon sworn September 10, 2014 (the "**September 10 Wheldon Affidavit**") in support of the Company's motion returnable September 16, 2014, it is the Company's intention to fully meet what it believes to be all of its obligations to the Landlord in accordance with the terms of the Lease, the Lease Extension and the CCAA.

#### **The Company's Request for Approval of an Interim Distribution to the Secured Lenders**

30. Details of the Company's obligations to the Secured Lenders are set out in the affidavit of G. Koulakian of the Company dated May 28, 2014, sworn in support of the Company's application pursuant to the CCAA (the "**May 28 Koulakian Affidavit**") and the September 10 Wheldon Affidavit.
31. As noted in the May 28 Koulakian Affidavit, the Company is indebted to BMO in respect of certain credit facilities (the "**Senior Credit Facilities**") made available by BMO pursuant to and under the terms of a credit agreement between BMO and the Company dated September 1, 2011, as amended by an amending agreement between BMO and the Company dated January 31, 2012 (the "**Senior Credit Agreement**").

32. The Company is also indebted to the Subordinate Lender in respect of certain credit facilities (together with the Senior Credit Facilities, the “**Credit Facilities**”) made available to the Company pursuant to a credit agreement between the Subordinate Lender and the Company dated September 1, 2011, as amended by an amending agreement between the Subordinate Lender and the Company dated January 31, 2013 (together with the Senior Credit Agreement, the “**Credit Agreements**”).
33. As security for the Company’s obligations to the Secured Lenders under the Credit Agreements, the Company granted the following security in favour of the Secured Lenders (collectively, the “**Security**”):
- (i) A general security and Pledge Agreement dated September 1, 2011 in favour of BMO;
  - (ii) Bank Act Security Notice of Intention dated September 2, 2011 (and related documentation) in favour of BMO;
  - (iii) An Assignment of Material Agreements dated September 1, 2011 In favour of BMO;
  - (iv) A General Security and Pledge Agreement dated September 1, 2011 in favour of the Subordinate Lender; and
  - (v) An Assignment of Material Agreements dated September 1, 2011 in favour of the Subordinate Lender.
34. As detailed in the September 10 Wheldon Affidavit, as at August 31, 2014, the amount of principal and accrued interest owing by the Company under the Credit Facilities provided to it by the Secured Lenders is approximately \$13.15 million.
35. Based on a review of registrations made under the *Personal Property Security Act* (Ontario) (the “**PPSA**”), the following parties have registered their respective security interests against the personal property of the Company: Xerox Canada Ltd. (“**Xerox**”) in respect of certain leased equipment, Orbian Financial Services II, Inc. (“**Orbian**”) and River VI, L.P. (“**River**”) and together with Xerox and Orbian, the “**Other PPSA Registrants**”). The Secured Lenders have the earliest-in-time PPSA registrations against the Company, followed chronologically by Xerox, Orbian and River. The Monitor understands that each of the Other PPSA Registrants are on the service list in the CCAA Proceedings and will be provided with notice of the Company’s motion returnable September 16, 2014.



36. The Monitor has obtained an independent, written legal opinion (the “**Security Opinion**”) from Chaitons, with respect to the validity and enforceability of the Security. Subject to the customary qualifications and limitations contained therein, it is Chaitons’ opinion that the Security is valid and enforceable against all of the Company’s personal property, which would include the proceeds from the Company’s assets subject to the LSA as well as any surplus cash flow from the Company’s operations.
37. The Security, however, is subject to certain prior charges and security interests or claims in respect of the Company’s property, which include:
- (i) The Administration Charge (as defined in the Initial Order) in the maximum amount of \$250,000 to secure the fees and disbursements incurred in connection with the Company’s CCAA Proceedings by the Monitor, Chaitons and legal counsel to the Company;
  - (ii) The D&O Charge (as defined in the Initial Order) in the maximum amount of \$100,000 for liabilities incurred by the Company that may result in post-filing claims against the directors and officers in their personal capacities; and
  - (iii) Statutory claims pursuant to the CCAA.
38. The Company is requesting that the Court authorize and direct the Company to make an interim distribution to the Secured Lenders in the amount of \$6 million (the “**Interim Distribution**”).
39. After making the Interim Distribution, the Company will retain in excess of \$1.7 million (excluding approximately \$1.6 million in additional projected receipts) for payment of any additional wind-down costs or other expenses associated with the completion of the Company’s CCAA proceedings (the “**Holdback**”). The Holdback is comprised of the following:

KK Precision Inc. Holdback Summary (\$000's)	
Administration Charge	\$ 250
Directors' Charge	100
Repairs/Restoration to the Premises (net of \$100k Security Deposit)	400
Post-Filing Expenses, including any Priority Claims	1,014
<b>Total Holdback</b>	<b>\$ 1,764</b>

40. The Company is proposing to withhold the full amount of the Administration Charge and the D&O Charge. The Monitor will be discussing with the Company and its legal counsel the manner in which the Company's sole director will agree to release the D&O Charge.
41. As part of the post-filing expenses, the Company is also proposing to withhold \$400,000 for the costs to complete repairs/remediation to the Premises. As detailed in the Tersigni Affidavit, the Landlord estimates the costs to properly restore the Premises to be approximately \$500,000. The proposed holdback amount is net of the \$100,000 security deposit already being held by the Landlord.
42. Based on its discussions with the Company, the Bank and their respective representatives, the Monitor understands that the Company and the Bank dispute the Landlord's claim to entitlement to \$400,000 of repairs/remediation to the Premises.
43. The remainder of the Holdback is to cover outstanding post-filing costs incurred in connection with the completion of the Company's CCAA Proceedings. In this regard, the Monitor has reviewed the Extended Cash Flow Forecast, as presented in this Third Report, and is satisfied that the Company is holding sufficient funds to make the proposed Interim Distribution, continue to fund the ongoing CCAA process and address all known post-filing claims and priority claims.
44. As noted above, the Company expects to recover an additional \$1.6 million in excess of the amount of the Interim Distribution and the Holdback. The Company and the Monitor are of the view that, in order to maximize efficiency and avoid the need to seek the approval of the Court to make subsequent distributions to the Secured Lenders, it is appropriate, in addition to seeking approval of the Interim Distribution, to seek the Court's approval to make such subsequent distributions to the Secured Lenders that the Company, in consultation with the Monitor, determines are appropriate, subject to the Company maintaining the Holdback to finalize the wind-down of its operations, including the payment of any outstanding post-filing obligations and the completion of repairs/remediation work at the Premises.

**The Company's Request for an Extension of the Stay of Proceedings to November 28, 2014**

45. As noted above, the current Stay Period expires on September 19, 2014. The Company is seeking an extension of the Stay Period to November 28, 2014.

46. In support of this request, the Company, with the assistance of the Monitor, prepared the Extended Cash Flow Forecast (see Appendix "D"), which is summarized below:

<b>KK Precision Inc.</b> <b>Cash Flow Forecast</b> <b>From 9/6/2014 to 11/28/2014</b> <b>(\$000's)</b>	
<b>Cash Receipts</b>	<b>\$ 4,891</b>
<b><u>Cash Disbursements</u></b>	
Operating Expenses	(120)
Payroll & Benefits	(105)
Retention Payments	(29)
Rent & Property Taxes	-
Utilities & Insurance	(42)
Sales Tax Remittances	(243)
Site Remediation Costs	(185)
Professional Fees	(353)
Other / Contingency	(85)
<b>Total Disbursements</b>	<b>\$ (1,161)</b>
<b>Net Cash Flow</b>	<b>\$ 3,729</b>
<b>Cash - Opening Balance</b>	<b>\$ 4,499</b>
<b>Cash - Closing Balance</b>	<b>\$ 8,228</b>

47. The Extended Cash Flow Forecast indicates that the Company will have sufficient liquidity to fund both operating costs and the costs of these CCAA Proceedings during the extension of the Stay Period, if granted.
48. The Monitor is of the view that the extension of the Stay Period is appropriate in the circumstances and supports the Company's request for an extension of the Stay Period for the following reasons:
- (i) The Company has acted and is acting in good faith and with due diligence in taking steps to wind-down the Company's operations;
  - (ii) It will provide the additional time necessary for the Company to complete the Auction, vacate the Premises and, ideally, resolve any outstanding issues with the Landlord regarding the Premises;
  - (iii) The granting of the extension should not prejudice any creditor, as the Company is projected to have sufficient funds to pay post-filing services and supplies, as contemplated by the Extended Cash Flow Forecast; and

- (iv) The Secured Lenders support the extension.


**Monitor's Conclusions and Recommendations**

49. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court issue an order that provides for the following:
- (i) Authorizing and directing the Company to make the Interim Distribution;
  - (ii) Authorizing and directing the Company to make such subsequent distributions to the Secured Lenders as the Company, in consultation with the Monitor, determines appropriate, subject to the Company maintaining the Holdback to satisfy any post-filing obligations and complete the administration of the CCAA Proceedings; and
  - (iii) Extending the Stay Period to November 28, 2014.

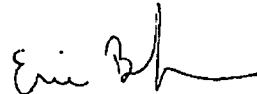
All of which is respectfully submitted this 10<sup>th</sup> day of September, 2014.

**Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.**

Per:



Adam Sherman, MBA, CIRP

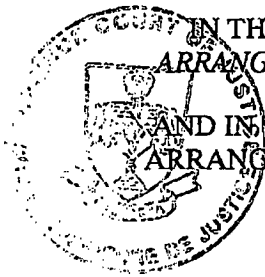


Eric Barbieri, CPA, CA

## APPENDIX A

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR. )  
JUSTICE WILTON-SIEGEL ) WEDNESDAY, THE 25<sup>th</sup>  
DAY OF JUNE, 2014



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

**ORDER**

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

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

**SERVICE**

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

## STAY EXTENSION

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

## SOLICITATION PROCESS

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

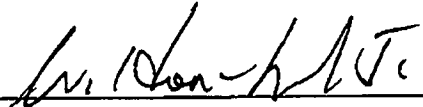
## ACCOMMODATION AGREEMENTS

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


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

**GENERAL**

8. **THIS COURT ORDERS** that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder, including without limitation in connection with any matters relating to the Siemens Accommodation Agreement, the Pratt Accommodation Agreement, or the Solicitation Process.
  
9. **THIS COURT ORDERS** that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

  
\_\_\_\_\_

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

 JUN 25 2014



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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**ORDER**  
(June 25, 2014)

**DENTONS CANADA LLP**  
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*Solicitors for the Applicant*

## **APPENDIX B**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR. )  
JUSTICE PENNY ) TUESDAY, THE 5<sup>th</sup>  
DAY OF AUGUST, 2014

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

**APPROVAL AND VESTING ORDER**

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

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

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

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

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

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

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

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

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

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

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

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

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

9. **THIS COURT ORDERS** that nothing herein contained shall require the Liquidator to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property (as defined in the Initial Order dated May 30, 2014) that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt Infinity from any duty to report or make disclosure imposed by applicable Environmental Legislation. Infinity, shall not, as a result of this Order or anything done in pursuance of Infinity's duties and powers hereunder or under the Liquidation Services Agreement, be deemed in Possession of any Property within the meaning of any Environmental Legislation, unless it is actually in possession.

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

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

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



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

AUG - 5 2014



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

Applicant

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**APPROVAL AND VESTING ORDER**  
(August 5, 2014)

**DENTONS CANADA LLP**  
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*Solicitors for the Applicant*



Court File Number: CV-14-10593-00CL

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

KK Precursor Inc.

Plaintiff(s)

AND

2215225 Ontario Inc.

Defendant(s)

Case Management  Yes  No by Judge: \_\_\_\_\_

Counsel	Telephone No:	Facsimile No:

- Order  Direction for Registrar (No formal order need be taken out)
- Above action transferred to the Commercial List at Toronto (No formal order need be taken out)
- Adjourned to: \_\_\_\_\_
- Time Table approved (as follows):

This is a motion to approve a sale of equipment. The sale parameters were approved by order of this court on June 25, 2014.

The equipment is on leased premises. The Company has agreed to be out of the premises by the end of September, 2014.

At the time of filing for CCAA

\_\_\_\_\_ Date

\_\_\_\_\_ Judge's Signature

Additional Pages \_\_\_\_\_

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

protection, The Company prepaid rent to the end of September and posted \$100,000 as a security deposit against clean up obligation. ~~There was~~  
~~in the face of~~

Post CCA, a new Landlord acquired the premises. Among other things, the new L was an unsuccessful bidder on the subject Equipment.

The present dispute arises because the L says the Co. cannot possibly vacate the premises leaving them in the "same state of repair and cleanliness as they were in at the commencement of" the lease.

For this reason, the L says the terms of the proposed sale do not comply with the parameters of sale approved by the Court in

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

June 2014.

The problem with the L's argument is that, if I do not approve the sale, there is absolutely no way the Premises will be in the condition required under the lease.

At the moment, the evidence of the Co and the Monitor is that they have in place a process that will enable the Co. to deliver the Premises in the condition they say is required by the lease.

The new L has its doubts about this. But, if I were to accede to the L's request, and refuse to approve the sale, I would be ensuring, as an absolute certainty, that the Co. would be in breach of its obligations and could not deliver

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

The Premises, unencumbered by this equipment, on October 1, 2014.

The L accepts that the proposed sale of the equipment is the best deal available.

The L's concern is that the L is being asked to shoulder the risk that the Premises are not ready in time and that the \$100,000 security deposit is insufficient to cover what it thinks are the real environmental clean-up liabilities.

In my view, the sufficiency of the \$100,000 security deposit against environmental liabilities is completely irrelevant to the present dispute. The maximization of the value of the equipment and its timely removal from the Premises, is completely

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

irrelevant to the clean-up obligation relating to possible environmental issues post-hoc.

The L's real complaint is that it has been saying all along that the G. should speed up its auction process, that the G. has suffered delays and that now the L is going to be "left out in the cold" if the G. cannot, in fact, give "clean" possession to the L on October 1, 2014.

This, it seems to me, is a different problem from the equipment sale I am being asked to approve.

There is no suggestion that there will be any contribution of the proceeds of sale (other than to cover the costs of sale). Nor

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

is there any suggestion that the Co. or Monitor are being released from any obligations they may have to the L at this stage.

In the absence of any other letter deal (either in terms of value realized or timeliness) out there, I am not prepared to refuse to approve the proposed sale.

The sale as described in the affidavit material and report of the Monitor, is approved.

There is evidence that the bids, if made public, could be adverse to the public interest in maximizing the return on sale, were this transaction not to be concluded. For this

Court File Number: \_\_\_\_\_

Superior Court of Justice  
Commercial List

FILE/DIRECTION/ORDER

Judges Endorsment Continued

person, I order ~~the~~ Exhibits 1 and 2 to the Affidavit of Garth Wheldon to be sealed until the transaction is complete.

This order is completely without prejudice to the L's claims and rights relating to its loan and the (o/s (or the Monitor's) obligations in that regard. No distribution of the <sup>net</sup> proceeds of sale ~~to the L or the Monitor~~ (except as otherwise specified in my order) shall be made without notice to the L ~~and~~ or without affording the L a full opportunity to make submissions on the issue.

Perry J.

August 5, 2014

## **APPENDIX C**



**RICHTER**

Richter Advisory Group Inc.  
181 Bay Street, 33<sup>rd</sup> Floor  
Toronto, ON M5J 2T3  
[www.richter.ca](http://www.richter.ca)

**KK PRECISION INC.**

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**JULY 25, 2014**

**Table of Contents**

Introduction.....	1
Purpose of this Report.....	2
Terms of Reference.....	3
The Company's Activities since the Issuance of the Initial Order.....	3
The Monitor's Activities since the Issuance of the Initial Order.....	4
Cash Flow for the Period May 10, 2014 to July 18, 2014.....	5
The Solicitation Process.....	7
The Transaction.....	9
The Premises.....	10
Monitor's Conclusions and Recommendation.....	12

**Table of Appendices**

Appendix A	Order of the Honourable Mr. Justice Wilton-Siegel dated June 25, 2014
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ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

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

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

SECOND REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.

July 25, 2014

**Introduction**

1. On May 30, 2014, the *Ontario* Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting KK Precision Inc. (the "**Company**") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed the Company's monitor (the "**Monitor**"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014 (the "**Stay Period**"). The proceedings commenced by the Company under the CCAA are herein referred to as the "**CCAA Proceedings**".
2. On June 25, 2014, the Court issued an order (the "**June 25 Order**"), among other things, extending the Stay Period to September 19, 2014, and approving the process commenced by the Company to solicit offers for the Company's business and/or assets (the "**Solicitation Process**"). A copy of the June 25 Order is attached hereto as **Appendix "A"**.
3. The principal purpose of the CCAA Proceedings is to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down includes production activities for a period of time to, among other things, provide key customers with the opportunity to source alternative supply, and to carry out a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.

### **Purposes of this Report**

4. The purpose of this report (the "**Second Report**") is to provide information to this Court in respect of the following:
- (i) The activities of the Company and the Monitor since the issuance of the Initial Order;
  - (ii) The Company's actual cash flows for the period from May 10, 2014 to July 18, 2014, including a comparison of actual to forecast results;
  - (iii) The results of the Solicitation Process;
  - (iv) The proposed liquidation of the Company's machinery and equipment (the "**Assets**") by Infinity Asset Solutions Inc. ("**Infinity**"), subject to the Court's approval;
  - (v) The key terms of a Liquidation Services Agreement (the "**LSA**") dated July 25, 2014, between the Company and Infinity (the "**Transaction**");
  - (vi) The reasons why the Monitor believes the LSA should be approved by this Honourable Court;
  - (vii) The discussions/negotiations between the Company and 2215225 Ontario Inc. ("**2215225**" or the "**Landlord**") regarding the Company's leased premises located at 104 Oakdale Road, Toronto, Ontario (the "**Premises**"); and
  - (viii) The Monitor's recommendation that this Honourable Court make an order or orders:
    - Approving the LSA and the Transaction, and authorizing and directing the Company to complete the Transaction;
    - Vesting, in the ultimate purchaser or purchasers of the Assets, the Company's right, title and interest in and to the Assets, free and clear of all liens and encumbrances (the "**Approval and Vesting Order**"); and
    - Sealing the Offer Summary (as hereinafter defined) and the unredacted version of the LSA until the closing of the Transaction or upon further order of the Court.

### **Terms of Reference**

5. In preparing this Second Report, the Monitor has relied on unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. The Monitor has not conducted an audit or other verification of such information.
6. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

### **The Company's Activities since the Issuance of the Initial Order**

7. A summary of the Company's activities since the issuance of the Initial Order include:
  - (i) Meeting and corresponding with employees regarding the CCAA Proceedings;
  - (ii) Continuing to manufacture component parts and supply goods to Rolls-Royce Canada Limited and Rolls-Royce Power Engineering PLC (together, "**Rolls Royce**"), Siemens Energy Inc. ("**Siemens**") and Pratt & Whitney Canada Corp. ("**Pratt**") in accordance with the terms of accommodation agreements entered into by the Company with Rolls Royce, Siemens and Pratt, respectively;
  - (iii) Preparing weekly production reports for Rolls Royce in accordance with the terms of the Rolls Royce accommodation agreement;
  - (iv) Communicating with the Landlord and its counsel regarding the Company's lease for the Premises, which expires on September 30, 2014;
  - (v) Communicating with key suppliers to secure goods and services during the CCAA Proceedings and to address payment terms;
  - (vi) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
  - (vii) Reporting receipts and disbursements;
  - (viii) Making payments to suppliers for goods and services received following the issuance of the Initial Order;
  - (ix) Consulting with the Monitor to develop the Solicitation Process;

- (x) Working with the Monitor to satisfy information requests of Prospective Purchasers (as defined below) as well as both scheduling and overseeing site visits for Prospective Purchasers to view and inspect the Company's machinery/equipment; and
- (xi) Negotiating and finalizing the LSA.

**The Monitor's Activities since the Issuance of the Initial Order**

8. Since the date of the Initial Order, the Monitor's activities have included:
- (i) Arranging for notice of the CCAA Proceedings to be published in the Monday, June 9, 2014, edition of the National Post, as required pursuant to the Initial Order;
  - (ii) Sending a notice, within 5 days of the issuance of the Initial Order, of the CCAA Proceedings to all known creditors of the Company;
  - (iii) Establishing a website at [www.richter.ca/en/insolvency-cases/k/kk-precision-inc](http://www.richter.ca/en/insolvency-cases/k/kk-precision-inc), where all materials filed with the Court, and all orders made by the Court in connection with the CCAA Proceedings, are available in electronic form;
  - (iv) Implementing procedures for the monitoring of the Company's cash flows and for ongoing reporting of variances to the Cash Flow Forecast (as hereinafter defined);
  - (v) Assisting the Company in preparing communications to its employees regarding the CCAA Proceedings and participating in a meeting with the Company's management team and employees on June 2, 2014, to discuss the CCAA Proceedings, including its impact on employees;
  - (vi) Assisting the Company in preparing its weekly report to Rolls Royce, including an analysis of the production status for component parts to be delivered to Rolls Royce;
  - (vii) Collecting and dispersing monies received, in trust, from Rolls Royce to the Company in accordance with the terms of the Rolls Royce accommodation agreement;
  - (viii) Assisting the Company in its discussions and negotiations with both Siemens and Pratt regarding the terms of their respective accommodation agreements;

- (ix) Considering processes to market the Company's business and/or assets for sale and assisting the Company in developing the Solicitation Process and communications with interested parties;
- (x) Attending frequently at the Premises and meeting with the Company's management team to discuss the Company's operations and the CCAA Proceedings;
- (xi) Corresponding and communicating extensively with the Company and its legal counsel;
- (xii) Corresponding and communicating with the Bank of Montreal ("BMO"), the Company's secured lender, and their legal counsel;
- (xiii) Responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
- (xiv) Assisting the Company in its discussions and negotiations with Infinity regarding the LSA;
- (xv) Assisting the Company and facilitating discussions and negotiations between the Company and the Landlord regarding the Premises; and
- (xvi) Preparing reports to the Court, as required.

**Cash Flow for the Period from May 10, 2014 to July 18, 2014**

9. The Company's cash flow projection for the period May 10, 2014 to September 19, 2014 (the "**Cash Flow Forecast**") was filed with the Court as part of the Company's CCAA application materials. The Monitor reported on the Company's cash flows for the period from May 10, 2014 to June 13, 2014, in its first report dated June 24, 2014 (the "**First Report**").

10. A comparison of the Company's budget to actual results for the 10 weeks ended July 18, 2014, is summarized as follows:

KK Precision Inc. Cash Flow Variance Analysis 10 Weeks Ended July 18th (\$000's)			
	Forecast	Actual	Variance
	18-Jul	18-Jul	\$
<b>Cash Receipts</b>			
Operating Cash Receipts	\$ 4,982	\$ 2,810	\$ (2,172)
Other	134	64	(70)
<b>Total Cash Receipts</b>	<b>\$ 5,116</b>	<b>\$ 2,874</b>	<b>\$ (2,242)</b>
<b>Cash Disbursements</b>			
Operating Expenses	(520)	(436)	84
Payroll & Benefits	(682)	(651)	30
Retention Payments	(134)	(158)	(23)
Rent & Property Taxes	(223)	(223)	-
Utilities & Insurance	(72)	(16)	57
Sales Tax Remittances	(214)	-	214
Professional Fees	(352)	(279)	73
Other	(211)	-	211
<b>Total Disbursements</b>	<b>\$ (2,408)</b>	<b>\$ (1,763)</b>	<b>\$ 646</b>
<b>Net Cash Flow</b>	<b>\$ 2,708</b>	<b>\$ 1,111</b>	<b>\$ (1,597)</b>
<b>Cash - Opening Balance</b>	<b>\$ 432</b>	<b>\$ 510</b>	<b>\$ 78</b>
<b>Cash - Closing Balance</b>	<b>\$ 3,140</b>	<b>\$ 1,621</b>	<b>\$ (1,519)</b>

11. As reflected in the above summary table, the Company generated net cash flow of approximately \$1.1 million and had approximately \$1.6 million on hand, net of outstanding cheques, as at July 18, 2014.
12. The principal reasons for the \$1.6 million unfavorable net cash flow variance are:
- (i) The negative variance of approximately \$2.2 million in receipts is due primarily to timing differences related to the delivery of manufactured component parts for Rolls Royce and delays in finalizing the accommodation agreements with Siemens and Pratt. The timing differences related to the delivery of manufactured component parts for Rolls Royce have been largely caused by third party suppliers (the "Suppliers") of required services to the Company (many of which are also creditors of the Company) either suspending the completion of further services to the Company or withholding the release of finished materials to the Company until their claims against the Company had been settled. The Company, with the assistance of Rolls Royce, resolved the issues with the Company's Suppliers and the



Company is working on accelerating its production activities, which is expected to result in the negative variance in receipts reversing by August 30, 2014 (the end date for the Company's production activities). No payments of pre-filing accounts payable were made in order to secure the cooperation of Suppliers; and

- (ii) The positive variance of approximately \$0.6 million in disbursements is due primarily to lower than projected operating expenses and timing differences related to the payment of certain other expenses, including professional fees.
13. The Monitor is of the view that the Company is acting in a manner consistent with its Cash Flow Forecast and there have been no material adverse changes to the Company's operations since the commencement of the CCAA Proceedings. Since the issuance of the Initial Order, the Company has been paying all suppliers based on negotiated terms or upon receipt of invoices. The Company advises that it has not incurred significant unpaid liabilities since the commencement of the CCAA Proceedings.

#### **The Solicitation Process**

14. As noted in the First Report, the Company completed a comprehensive sales process from February to April 2014 (the "Initial Sales Process") that generated interest from several parties, but did not result in a firm deal for the sale of the Company's business and/or assets. As such, given the Company's limited liquidity and the fast approaching expiration of the lease for the Premises, the Company, with the assistance of the Monitor, undertook a short sales process as a means of testing the market, gauging interest in the Company and/or its assets, and determining whether a transaction that would result in greater than liquidation value was available.
15. The purpose of the Solicitation Process was to identify one or more purchasers for the Company's business and/or assets. The key aspects of the Solicitation Process and its results are summarized as follows:
- (i) The Company, in consultation with the Monitor, assembled a list of potential interested parties, including many of the strategic/financial parties that participated in the Initial Sales Process and parties that regularly liquidate assets in insolvency proceedings (collectively, the "Prospective Purchasers");

- (ii) On June 16, 2014, the Company distributed an offer solicitation letter to the Prospective Purchasers detailing the opportunity to purchase the Company's business and/or assets (the "Offer Solicitation Letter"). Included with the Offer Solicitation Letter was a schedule detailing the Company's machinery/equipment. In total, the Company contacted fifty-four (54) parties to advise of the opportunity to acquire the Company and/or its assets. A copy of the Offer Solicitation Letter is attached as Exhibit "B" to the affidavit of Garth Wheldon sworn July 25, 2014, in support of the Company's motion returnable August 1, 2014 (the "July 25 Wheldon Affidavit");
- (iii) Prospective Purchasers interested in obtaining additional information regarding the Company's business were required to execute a confidentiality agreement ("CA") in order to obtain additional information on the Company's operations. One (1) party executed the CA and was provided with additional information on the Company's operations;
- (iv) The Company, with the assistance of the Monitor, facilitated due diligence efforts by, among other things, coordinating meetings between Prospective Purchasers and the Company and/or scheduling site visits to view and inspect the Company's machinery/equipment;
- (v) Prospective Purchasers were required to submit offers for the Company and/or its assets on or before 5:00 p.m. (Eastern Standard Time) on July 7, 2014 (the "Offer Deadline");
- (vi) Six (6) offers (the "Offers") to purchase and/or auction the Company's assets were received prior to the Offer Deadline;
- (vii) The Monitor reviewed the Offers with the Company and prepared a schedule summarizing/comparing the Offers (the "Offer Summary"). In the event that this Court grants the Approval and Vesting Order, but the Transaction does not close, the Company is of the view that efforts to remarket its assets may be impaired if the Offer Summary and the LSA, which are attached as Confidential Exhibits "1" and "2" to the July 25 Wheldon Affidavit, are made public at this time. In the circumstances, the Monitor believes that it is appropriate for the Offer Summary and the unredacted LSA to be filed with the Court on a confidential basis and sealed until the closing of the Transaction or upon further order of this Court.

## The Transaction

16. Following its review of the Offers, on or about July 11, 2014, the Company and the Monitor contacted Infinity to advise that the Company wished to proceed with its proposal to sell and/or auction the Company's machinery/equipment. Subsequent to notifying Infinity of the Company's desire to proceed with its offer, the Company and its legal counsel, and the Monitor have been working with Infinity and its legal counsel to negotiate a definitive LSA.
17. On July 25, 2014, the Company and Infinity executed an LSA in respect of the Assets.
18. Key elements of the Transaction are as follows:
  - (i) The Assets are to be sold by private and/or public auction/liquidation sales to be conducted from the Premises;
  - (ii) The Assets are to be removed from the premises by no later than September 30, 2014. Following the auction, the Company and Infinity will work cooperatively with each other so that Infinity can efficiently facilitate the removal of the Assets and the Company can complete its remediation obligations with respect to the Premises;
  - (iii) The Assets are being sold on an "as is, where is" basis with no covenants, representations, or warranties of any kind whatsoever, either stated or implied, including, without limitation, as to description, fitness for purpose, suitability, quantity, condition, quality, suitability, durability or marketability;
  - (iv) Within two (2) business days following the execution of the LSA, Infinity is to provide the Company with the deposit monies referred to in the LSA to be held by the Company and credited toward payment of the net minimum guarantee ("NMG"). The balance of the NMG is to be paid to the Company two (2) business days prior to the auction date;
  - (v) Infinity is entitled to charge and collect a buyer's premium on the Asset sales, the payment of which shall not impact or otherwise detract from the NMG;
  - (vi) Where the net sale proceeds are greater than the NMG, the excess, up to the expense amount referred to in the LSA, is to be paid to Infinity, with the remaining balance paid to the Company;

(vii) The Transaction is subject to Court approval and the issuance of the Approval and Vesting Order.

19. The Monitor is of the opinion that the Transaction represents the best recovery for the Assets in the circumstances and satisfies the factors to be considered pursuant to section 36(3) of the CCAA. In particular, the Monitor is of the view that:

- (i) The Solicitation Process for the Assets was reasonable in the circumstances and approved by the Court;
- (ii) The Company's limited liquidity coupled with the fact that the lease for the Premises expires on September 30, 2014, substantially eliminates an opportunity to further market the Assets for sale without putting the Transaction at risk and impairing recoveries;
- (iii) The further remarketing of the Assets would not likely result in greater realizations, as the market has been extensively canvassed and all likely bidders have already been provided with an opportunity to bid on the Assets;
- (iv) The Transaction represents the best and highest offer received by the Company for the Assets; and
- (v) BMO was consulted in connection with the Transaction and supports the Transaction.

#### **The Premises**

20. As noted in the First Report, the lease for the Premises expired on April 30, 2014. Prior to the commencement of the CCAA Proceedings, the Company negotiated a lease extension which runs until September 30, 2014 (the "**Lease Extension**"). Subsequent to entering into the Lease Extension, the Premises were sold to 2215225.
21. As also noted in the First Report, in consideration of the timeframe to vacate the Premises following the completion of its production activities, the Company and the Monitor approached the Landlord regarding a possible one-month lease extension for the Premises. On June 16, 2014, the Landlord informed the Company of the terms upon which it would agree to a one-month lease extension to October 31, 2014, which terms were unacceptable to the Company. On June 19, 2014, the Company was informed by the Landlord that it was not prepared to consider a further lease extension beyond September 30, 2014, as the Landlord had other uses for the Premises that are expected to commence October 1, 2014.

22. Following completion of the Solicitation Process and the Company's selection of Infinity as the successful bidder, the Company and the Landlord (with the assistance of the Monitor) have been communicating regarding (i) the Company's requirement to vacate the Premises, including the completion of any required repairs and/or remediation activities, by September 30, 2014, (ii) the Landlord's concerns that the Company will not be able to fulfill its obligations to restore the Premises to an acceptable condition prior to September 30, 2014, and (iii) the possibility of a brief lease extension beyond September 30, 2014.
23. On July 18, 2014, Mr. D. Ullmann of Minden Gross LLP, solicitor for the Landlord, emailed the Monitor and the Company (the "Landlord's July 18 Email") to outline the Landlord's position regarding the items that, in the Landlord's view, need to be repaired or restored in accordance with the Company's lease obligations for the Premises (the "Landlord's Repair List"). A copy of the Landlord's July 18 Email is attached as Exhibit "E" to the July 25 Wheldon Affidavit. As noted in the Landlord's July 18 Email, the Landlord estimated the aggregate cost to complete the Landlord's Repairs List to be at least \$500,000.
24. On July 24, 2014, the Company, via its solicitor, Dentons Canada LLP, responded to the Landlord's July 18 Email (the "Company's July 24 Correspondence") to advise that the Company disagreed with many of the items included on the Landlord's Repair List. The Company's July 24 Correspondence also detailed those repairs which the Company believed it was responsible to complete (the "Company's Repair List"), as per its lease obligations for the Premises, and confirmed that, in the Company's view, the \$100,000 security deposit currently being held by the Landlord is sufficient to complete the items included in the Company's Repair List. A copy of the Company's July 24 Correspondence is attached as Exhibit "F" to the July 25 Wheldon Affidavit.
25. The Monitor understands that the lease agreement (including subsequent amendments thereto) between the Company and 104 Oakdale Acquisition Corp., the former landlord for the Premises, dated September 1, 2011 (the "Lease") governs, *inter alia*, the Company's responsibilities upon the termination of the Lease and the surrender of the Premises to the Landlord. The Monitor further understands that the Company's position is that, the Lease (a copy of which is attached as Exhibit "D" to the July 25, Wheldon Affidavit) states that the Company is required to restore the Premises to the same state of repair and cleanliness that it was in at the commencement of the Lease in September 2011, reasonable wear and tear excepted.

26. Based on information provided by the Company to the Monitor, including the dates that certain improvements and/or alterations to the Premises were completed, it appears that, based on the Company's interpretation of the Lease, certain of the items included in the Landlord's Repair List relate to the remediation and/or removal of improvements or alterations to the Premises that were in place prior to the commencement of the Lease in September 2011.
27. With respect to the Landlord's concerns regarding the Company's ability to complete the necessary repairs prior to September 30, 2014, the LSA confirms that the Company and Infinity will be working cooperatively with each other to ensure that Infinity can efficiently facilitate the removal of the Assets from the Premises and the Company can complete its remediation obligations with respect to the Premises. In addition, based on information provided by the Company to the Monitor, including estimates for certain repairs to be completed by third parties, it appears that the Company has developed a reasonable plan to ensure all of the items included on the Company's Repair List should be completed prior to the expiration of the Lease.

#### Monitor's Conclusions and Recommendation

28. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Order(s) granting the relief detailed in paragraph 4(viii) of this Report.

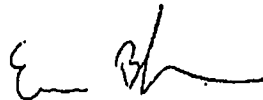
All of which is respectfully submitted this 25<sup>th</sup> day of July, 2014.

Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.

Per:



Adam Sherman, MBA, CIRP



Eric Barbieri, CPA, CA

## APPENDIX D

**KK Precision Inc.**  
**Cash Flow Forecast**  
**From 09/06/2014 to 11/28/2014**  
**(\$000's)**

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

**Notes:**

1. Primarily comprised of collections (including HST) on completed component parts delivered to Rolls Royce, sales (including HST) of WIP parts to Rolls Royce, proceeds from the sale of intellectual property to Rolls Royce, reimbursement of employee retention payments from Rolls Royce, and Infinity's payment of the net minimum guarantee associated with the auction of the Company's assets.
2. Includes payment of all post-filing A/P as well as estimated costs for document storage/destruction, equipment leased during September and all other operating costs required to wind down the Company's operations.
3. Primarily represents payroll costs and retention payments related to the seven remaining employees assisting with post-production wind down activities.
4. Includes estimated costs for repairs the Company has agreed to make to the Premises prior to vacating the Premises on September 30, 2014.
5. Reflects a \$10,000 per week contingency amount for the first five weeks in the forecast, and \$5,000 per week thereafter.



## APPENDIX E

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

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

**AFFIDAVIT OF T.J. TERSIGNI  
(sworn July 30, 2014)**

**I, T.J. TERSIGNI**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am the president and CEO of 2215225 Ontario Limited (the "Landlord"), the landlord of 104 Oakdale Rd and as such have personal knowledge of the matters to which I hereinafter depose. Where the information contained in this affidavit was provided to me by others, I verily believe it to be true.
2. I make this affidavit to advise the Court of the unfair prejudice to the Landlord arising from the proposed approval of the Liquidation Services Agreement between K.K. Precision Inc. ("KKP") and Infinity Assets Solutions Inc. ("Infinity") and to seek relief related thereto.

***BACKGROUND***

3. 104 Oakdale Rd (the "Premises") is a free standing single purpose industrial building located in Northern Toronto. It is occupied by KKP. There are no other tenants.

4. The Premises is composed of a large single building which occupies approximately 28,000 sq ft. on 1.88 acres, which houses a large industrial space, a basement, an enclosed office area, a chemical services and testing area, and other machining areas. The exterior includes a fenced-in holding area for product and parts storage, a large parking lot and loading area at the rear of the building and a smaller but still large parking area at the front of the building.

5. Currently there are approximately five (5) large ocean shipping containers on the rear parking area. Certain solvents and chemicals appear to be stored in large translucent plastic storage containers which are in an open area in the rear parking lot.

6. KKP is in the midst of a restructuring under the Companies' Creditors Arrangement Act. KKP is engaged in ongoing manufacturing operations on the Premises to meet their obligations under several different accommodation agreements which they have presented to the Court.

7. KKP has occupied the Premises in excess of 20 years. Most recently, KKP entered into a lease agreement for the Premises dated September 1, 2011 (the "Lease"). The Lease would have expired in April 30, 2014, but for an extension entered into by the then owner of the property 104 Oakdale Acquisition Corp. (the "Former Landlord"). A copy of the lease is attached hereto as **Exhibit "A"**.

8. On May 1, 2014, KKP entered into a lease extension (the "Lease Extension") with the Former Landlord. A copy of the Lease Extension is attached hereto as **Exhibit "B"**.

9. We were not party to those negotiations. However, on its face, the Lease Extension is clear about two main points of agreement. First, that the tenant would be responsible for restoring the Premises at the end of the term (notwithstanding

the impending insolvency proceedings of which the parties were presumably aware). Second, that the tenant would have no rights to the Premises after September 30<sup>th</sup>, 2014.

10. Notwithstanding that this agreement was completed on May 1, 2014, KKP did not file for its protection under the CCAA for almost a month.

11. Separately, the Landlord entered into negotiations to acquire the Premises. We purchased the Premises on June 2, 2014, two days after the commencement of the CCAA proceedings. The closing of the transaction included an Assignment and Assumption of Lease, dated June 2, 2014 under which the Lease was assigned to the Landlord.

12. The Initial Order in these proceedings dated May 30, 2014 confirmed that the current lease term expired on September 30, 2014. It was expressly understood that we would have the use of the Premises as of October 1, 2014.

13. I own other industrial businesses and intend to occupy the Premises to continue and expand those operations. We have made arrangements to move the necessary machines and equipment into the Premises as of October 1, 2014 and have made other commitments related to that time frame.

14. I have had the opportunity to review the Affidavit of Mr. Wheldon dated July 25, 2014. It is not accurate that we have agreed to offer an extension to allow KKP to continue to occupy the Premises. We expect to receive the Premises back on October 1.

### ***RESTORATION OBLIGATIONS***

15. Pursuant to the lease, KKP is obliged to restore the Premises and to clean the Premises. Its specific obligations are separated into two categories in the Lease: i) those related to restoring damage or changes made by the tenant to the Premises and ii) those related to any environmental issues related to the Premises.

16. Pursuant to the Lease, paragraph 2.3, KKP is obliged:

“...to vacate and surrender the Premises in the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear accepted, and the Tenant will restore the Premises accordingly...”

17. Nothing in the Lease or Lease Extension releases KKP from any other obligations which KKP might have to the Landlord in respect of damage done to the Premises caused by KKP prior to the commencement of the term of the Lease. To the extent KKP damaged the Premises prior to the commencement of the current Lease, KKP remains liable for same.

18. We are holding a security deposit in the amount of \$100,000.00 as provided by KKP to the Former Landlord under the Lease Extension. The Lease Extension is very clear that the \$100,000.00 is not intended to be an exhaustive remedy or a cap.

19. The Lease Extension states at section c) vi:

“for clarity, the Tenant shall remain responsible for all of its obligations contained in the Lease Agreement and the Security

Deposit is not a substitute or an exclusive remedy for such obligations”

20. With respect to the environmental obligations of KKP to the Landlord, Paragraph 7.1 of the Lease states:

“Tenant shall:

- a) Comply with all Environmental Laws governing the release of Hazardous Substances, if any such Release occurs on the Leased Premises as a result of the Tenant’s occupancy of the Leased Premises.”

21. “Hazardous Materials” and “Release” are each defined terms in the Lease with very broad language.

22. When combined with the KKP’s obligations to clean the Premises, plus a Tenant’s common law obligations to the Landlord, KKP is therefore obliged to deal with any environmental hazards, spills or contamination related to the Premises during its occupation and upon vacating the Premises.

23. On June 16<sup>th</sup>, 2014, I became aware as a result of a mailing from KKP, that KKP intended to conduct an auction to sell the equipment on the Premises and to vacate the Premises by Sept 30<sup>th</sup>, 2014. Through our counsel, we communicated to KKP and the Monitor our concern that this timeline was unrealistic, given the nature of the building, the assets, and the restoration obligations.

24. Our counsel reminded KKP that it was required not only to vacate the Premises by September 30<sup>th</sup>, 2014, but also that it is required that the Premises be

cleaned and made ready by that date. A copy of the letter from our counsel to that effect, dated June 19, 2014, is attached hereto as **Exhibit "C"**.

25. After the announcement by KKP that it intended to require parties to exit the Premises by Sept 30, 2014, I was approached by several proposed auctioneers. No fewer than 4 different auctioneers advised me that, in their opinion, it was somewhere between impractical and impossible to complete a proper auction within the time period then being offered.

26. One such entity, AccuVal- LiquiTec contacted our counsel, initially by phone and then later by email on June 25<sup>th</sup>. A copy of that email exchange is attached hereto as **Exhibit "D"**. The auctioneer in question clearly indicated,

"Last we spoke you were going to speak with your client with regard to how much he wants for rent on a weekly basis for the facility. As discussed, due to the time constraints on the deal we'll need more time to conduct a proper sale. "

27. Given our concern that insufficient time was available for KKP's plans, we made a without prejudice offer to KKP to negotiate an extension of the Lease (mindful of the assistance that would provide KKP and the costs we would have to incur to provide this extension). That offer was rejected. We confirm that that offer is no longer open for acceptance.

28. Our counsel attended court at the hearing to approve the sale process on June 25<sup>th</sup>, 2014 and expressed these concerns. Our counsel's letter of June 19<sup>th</sup>, outlining these concerns was in the materials before the Court.

29. In response to these concerns the Court required KKP to return to Court on July 14<sup>th</sup> to report on the progress of the sale process.

30. The machines in question which are to be sold are not insignificant. Several occupy space in excess of 8 square meters, with the largest machines occupying space in excess of 15 square meters. Each major machine (there are over a dozen) is located in or on pits cut into the floor of the building. The pits are covered with black chemical ooze and residue that I am concerned is hazardous and fragments of waste product from the manufacturing.

31. I am deeply concerned with what will be found when the machines are removed and the pits explored. This cannot currently be done with the machines in place. We feel this potential environmental issue will have to be addressed prior to filling in the pits.

32. Given that, in my view it was impossible for an auctioneer to complete an auction and carefully meet the repair obligations, the Landlord submitted a bid to acquire the assets of KKP. That bid included a waiver and release from the landlord of the obligations of KKP to the landlord which we valued at \$500,000.00.

33. On July 14<sup>th</sup>, KKP returned to Court and reported that a bidder had been selected (although the deal was not yet then finalized), that the bidder was not the Landlord, and that the bidder and KKP remained committed to the September 30, 2014 deadline.

34. In response to concerns articulated at the June 25<sup>th</sup> hearing that the proposed timeline was unrealistic, the Monitor advised the Court at the June 25<sup>th</sup> hearing, that they intended to suspend production for a few days in the second last week or last week of August, and that they intended to conduct the auction over a weekend. This was required to provide sufficient time for KKP to meet its obligations once the auction was complete.



35. However, this has proven to be optimistic. KKP was delayed for whatever reason in reaching an agreement with Infinity until July 25, 2014. As a result, KKP and Infinity lost two crucial weeks during which the auction might have been prepared and held in August.

36. The proposed auction date is now September 10<sup>th</sup>, 2014, provided the Court approves same.

37. There is now insufficient time to conduct the auction and attend to the obligations under the Lease.

38. Infinity shares this view. They approached the Landlord, as recently as July 17<sup>th</sup>, 2014 and advised that they required an extension in order to properly conduct an auction and meet their obligations. They offered the Landlord \$150,000 in exchange for an extension of the Lease of one month. This was rejected.

#### ***DISPUTE WITH LANDLORD***

39. There is also insufficient time in which to fairly deal with material disputes which have arisen in respect of the Lease and the extent of the tenant's obligations.

40. On July 16<sup>th</sup>, 2014 I attended at the Premises to conduct a preliminary inspection. I observed several matters of concern.

41. Following that inspection we had a without prejudice meeting among, Mr. Wheldon, our counsel, counsel for KKP and the Monitor.

42. We were not able to reach a resolution on several key issues. I was not persuaded by Mr. Wheldon's view of these issues. I do not believe him to be an objective party in this matter.

43. We have suggested that an independent expert be retained to review the Premises and opine on the restoration obligations. This has not yet been done, given the time constraints, although KKP has recently offered that one attend at some point in the future.

44. On July 18, 2014 we sent an email (attached as Exhibit "E") setting out the issues which I observed and seeking a resolution.

45. KKP took a week to respond. Their response (which in fact responds only to some but not all of the issues raised) is attached hereto as Exhibit "F". In this letter, KKP offered to pay costs beyond those covered by the security deposit, but the extent of those costs, and the items to be repaired, differs from the list provided by the Landlord.

46. It is clear that there are significant facts in dispute including:

- i. the condition of the Premises as of the commencement of the Lease;
- ii. the obligations of KKP for matters arising prior to the 2011;
- iii. the environmental issues;
- iv. the definition of "wear and tear"; and
- v. what constitutes a reasonable repair to the pits in the floors;
- vi. the scope of repairs required; and
- vii. the timing and cost of repairs.

47. The affidavit of Mr. Wheldon sworn July 25<sup>th</sup>, 2014 provides little information on these issues, other than confirming the existence of the dispute.

48. We note that the environmental reports appended to his affidavit are at least a year old, and they do not address the conditions inside of the building. They are not sufficient to allay our concerns.

49. We note that while KKP is attempting to make an issue as to whether or not the restoration obligations date back only to 2011 (which is not accepted), there is no argument made that the environmental restoration requirements are so limited.

50. We have not yet had the opportunity to conduct an environmental review, which the Company admits in its letter of July 24, 2014 will take at least 6 weeks to complete.

51. We have not yet seen a timeline from KKP as to how they intend to attend to complete even the repairs which they admit are necessary, although we requested same on July 18, 2014

52. I am concerned that KKP is seeking to approve an offer which requires only the removal of the assets by September 30<sup>th</sup>. If assets are removed on September 30<sup>th</sup>, there will be no time for the cleaning and restoration of the Premises.

53. I am advised by our counsel that litigation such as the parties potentially face here, concerning the obligations of an industrial tenant who vacates a Premises without agreement from the landlord, can take several years to resolve. KKP is seeking to summarily resolve this issue with an order of the Court on four (4) days' notice.

54. It is a term of the sale process that the building be vacated and restored by KKP by September 30, 2014. Under the proposed Liquidation Services Agreement, this cannot be met.

55. The Liquidation Services Agreement allows for assets to be left on the Premises (section 3.04), exempts Infinity from filling holes in the floor, walls or roof, or from dealing with debris, paper, materials etc. which are not sold by the Infinity.

56. The Liquidation Services Agreement grants Infinity until September 30, 2014 to remove the assets. This potentially leaves no time for remediation of the property, inspection, or resolution of disputes.

57. The Liquidation Services Agreement imposes different restoration obligations on Infinity than the obligations to which KKP is subject, which can lead to confusion and to tasks not being done correctly or promptly.

58. We are concerned that because the September deadline is now likely difficult to impossible to meet, that restoration work will not be able to be done properly, even with the best of intentions.

59. We remain of the view, as per our letter of June 19, 2014, that the proper date for the removal of the assets should be no later than September 15, 2014. If the offer of Infinity cannot be amended to meet that timeline, it should not be approved by the Court.

### ***SECURITY REQUIRED***

60. Regardless of whether or not the Infinity offer is approved, we anticipate at this time that the costs necessary to properly restore the Premises are in the amount

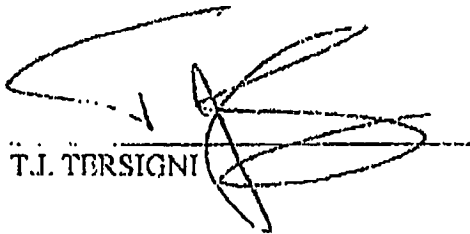
of approximately \$500,000.00 (assuming that nothing is further damaged during the removal of the equipment after the auction). KKP does not agree, but acknowledges in its letter of July 24<sup>th</sup> that the costs might exceed the \$100,000 already pledged, even for the smaller list of concerns they are willing to acknowledge.

61. We will ask the Court to make an order granting the Landlord a priority charge over the sale proceeds in the amount of \$500,000, to be held by the Monitor, pending the resolution of the issues set out herein. This amount would be applied to pay damages and costs related to resolving this issue.

62. We will also be seeking an order confirming that the stay imposed in these CCAA proceedings shall be lifted to allow the Landlord to occupy the Premises as of 12:01 AM October 1, 2014. Further, the Landlord shall be entitled to dispose of any property of KKP which remains on the Premises at that time, in its sole discretion, and to hold KKP liable for such restoration costs as it incurs with respect to the Premises thereafter (subject to KKP's right to argue the applicability of those costs to their obligations).

63. I make this affidavit to advise the Court of the concerns of the Landlord and to seek security for such damages as may be suffered by the Landlord from the proposed sale, and for no other or improper purpose.

SWORN before me at the City )  
of Vaughan )  
of Toronto, in the Province of )  
Ontario, this day of July, 2014 )  
(Commissioner for Taking Affidavits )  
#2228900 v2

  
T.L. TERSIGNI

Paulette Fern Tengen, a Commissioner, etc.,  
Province of Ontario, for Minden Circus LLP,  
Debtors and Sectors.  
Expires July 4, 2015.

---

This is Exhibit "A" referred to  
in the Affidavit of T.J. TERSIGNI

Sworn this 30th  
day of July, 2014.

  
A Commissioner for Taking Affidavits

---

Pauline Tene Legeb, a Commissioner, ctc.,  
Province of Ontario, for Minden Gross LLP,  
Barristers and Solicitors.  
Expires July 4, 2015.

**LEASE**

**THIS LEASE is made as of the 1<sup>st</sup> day of September, 2011.**

**BETWEEN:**

**104 OAKDALE ACQUISITION CORP.  
(the "Landlord")**

**OF THE FIRST PART**

**- and -**

**KK PRECISION INC.  
(the "Tenant")**

**OF THE SECOND PART**

**This Lease is made between the Landlord and the Tenant and constitutes a lease between the parties of the leased premises hereinafter described on the terms and with and subject to the covenants and agreements of the parties hereinafter set out:**

**ARTICLE 1 – DEFINITIONS**

**In this Lease the following defined terms have the meanings indicated:**

- 1.1 "Environment" shall mean any of the following media:**
- (a) land, including surface land, sub-surface strata and any natural or man-made structures;**
  - (b) water, including coastal and inland waters, surface waters, ground waters, drinking water supplies and waters in drains and sewers, surface and sub-surface strata;**
  - (c) air, including indoor and outdoor air; and**
  - (d) plant life, animal life and ecological systems.**
- 1.2 "Environmental Laws" means all Laws relating to protection of the Environment, worker or occupational health and safety, product safety, product Liability, public health or safety and Releases of or exposure to Hazardous Substances.**
- 1.3 "Environmental Liabilities" means the presence of any Hazardous Substance on the Leased Premises regardless of whether such Hazardous Substances are discovered following the date of this Lease.**

- 1.4 "Environmental Permit" shall mean any permit issued, granted or required under or in connection with any Environmental Laws.
- 1.5 "Hazardous Substance" shall mean, collectively, any (a) petroleum or petroleum products, or derivative or fraction thereof, radioactive materials (including radon gas), asbestos in any form that is friable, urea-formaldehyde foam insulation, and polychlorinated biphenyls, and/or (b) any chemical, material, substance or waste that may impair the quality of the environment is defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "toxic substances," "deleterious," "caustic," "a source of contamination," "restricted hazardous wastes," "contaminants," or "pollutants", in each case as regulated under Environmental Laws, including materials that are deemed hazardous pursuant to any Environmental Laws due to their ignitability, corrosivity or reactivity characteristics.
- 1.6 "Improvements" means buildings, structures and other fixed improvements, including Leasehold Improvements;
- 1.7 "Landlord" means 104 Oakdale Acquisition Corp. and its successors and assigns;
- 1.8 "Lands" means the lands known municipally as 104 Oakdale Road, Toronto, Ontario, which consist of approximately 1.8 acres being Plan M770, Lot 125 Lot 126, North York, Ontario;
- 1.9 "Lease" means this lease, including any schedules attached hereto, and any amendments to such lease from time to time;
- 1.10 "Leased Premises" means the Lands together with all improvements now or hereafter erected on the Lands;
- 1.11 "Leasehold Improvements" means all fixtures, improvements, installations and additions from time to time made, erected or installed in the Leased Premises with the exception of trade fixtures, and furniture and equipment not of the nature of fixtures, but includes all partitions however affixed, including moveable partitions, all systems for the supply and operation of utilities, all carpeting, drapes and decorations of any kind, lighting fixtures and built-in furniture and furnishings;
- 1.12 "Release" shall mean any release, spill, emission, leaking, pumping, pouring, injection, deposit, disposal, discharge, dispersal, dumping, migration, spraying, incineration, abandoning, seeping, escaping or leaching of any Hazardous Substances into or through the Environment, and "Released" shall be construed accordingly.
- 1.13 "Rent" means the rent payable pursuant to Section 3.1(a);



- 1.14 "Real Property Taxes" means all taxes (including local improvement rates), rates, duties and assessments that may be levied, rated, charged or assessed against the Leased Premises or any part thereof, save and except for corporate income tax of the Landlord;
- 1.15 "Sales Taxes" means all harmonized, goods and services, business transfer, multi-stage sales, sales, use, consumption, value added or other similar taxes imposed by the Government of Canada or any province or local government upon the Landlord or the Tenant in respect of this Lease or the payments made by the Tenant hereunder or the goods and services provided by the Landlord hereunder, including, without limitation, the rental of the Leased Premises by the Tenant;
- 1.16 "Tenant" means KK Precision Inc. and its successors and permitted assigns; and
- 1.17 "Term" means the term of this Lease as specified in Section 2.1.

## ARTICLE 2 – DEMISE AND TERM

### 2.1 Demise of Leased Premises and Term

In consideration of the rents, taxes and other payments, covenants and agreements hereinafter reserved and contained on the part of the Tenant to be respectively paid, observed and performed, the Landlord does demise and lease the Leased Premises, for the sole use as a manufacturing facility and offices in accordance with all applicable laws, by-laws and regulations, unto the Tenant, to have and to hold for the Term of one (1) year commencing on September 1, 2011 and ending on August 31, 2012.

### 2.2 Extension

This Lease may be extended for a further one (1) year term ("Renewal Term") on the same terms and conditions as contained herein at the Tenant's option on ninety (90) days written notice prior to the expiry of the Term. The Tenant shall have the right to terminate the Lease during the Renewal Term upon ninety (90) days written notice to the Landlord.

### 2.3 Surrender of Leased Premises

Upon the expiration or sooner termination of this Lease (including, but not limited to, at the expiry of the Term or if extended at the expiry or termination of the Renewal Term), the Tenant shall vacate and surrender to the Landlord the Leased Premises in the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear excepted, and the Tenant will restore the Premises accordingly. The Tenant will remove any and all such fixtures and other items that Landlord may identify from the Leased Premises and restore the

Leased Premises accordingly. Notwithstanding the foregoing, Tenant's obligation to remove fixtures and other items will not apply to any fixtures or items that were so placed or installed in or on the Leased Premises prior to the commencement of the Lease. For clarity, (i) the Tenant may, at its option, but shall not be required to remove the cranes, compressors or outside storage fence, (ii) Tenant shall be required to fill in the machine foundations and power wash the floors and walls; provided, however, the Tenant shall only be responsible for any costs of filling in the machine foundations and power washing up to a maximum of \$50,000 (the "Foundation and Floor Costs"). The Tenant shall use commercially reasonable efforts to minimize the Foundation and Floor Costs. Any damage due to the Tenant's (or its subsidiaries, subcontractors, employees, officers, directors, consultants, shareholders, associates or affiliates) operations or actions, removal of machinery or other fixtures prior to or at the end of the Term or the Renewal Term (as same may be extended) shall be repaired by and at the cost of the Tenant.

#### ARTICLE 3 - RENT

##### 3.1 Rent

- (a) Commencing on the commencement of the Term and thereafter during the Term and the Renewal Term, the Tenant shall pay, without any set-off, abatement or deduction, to the Landlord an annual "Base Rent" equal to one hundred twenty six thousand Canadian dollars (C\$126,000) plus all costs relating to the Leased Premises, including without limitation, utility, operating, maintenance, repair and replacement and insurance expenses and property taxes (the aforementioned non Base Rent amount constituting "Additional Rent", with Additional Rent and Base Rent constituting "Rent").
- (b) Rent shall be payable by equal monthly instalments in advance on the first day of each calendar month, except, that to the extent applicable, the first payment shall be due upon the commencement of the Term and shall include payment for the first partial calendar month (pro rated) and the first full calendar month. Additionally, a deposit for the final month of the Lease shall be due upon the commencement of the Term.
- (c) The Tenant shall pay to the Landlord all Sales Taxes.

##### 3.2 Interest

In every case where the Tenant shall fail to pay the Landlord Rent or any other payment in accordance with the terms of this Lease when due or shall pay an amount which is thereafter determined, estimated or found to be less than the amount properly due, the Tenant shall pay the Landlord interest at a per annum rate of twelve percent (12%).

**3.3            Net Lease**

It is the intent of the parties hereto that the Rent payable under this Lease is absolutely net to the Landlord. Any amount and any obligation which is not expressly declared herein to be that of the Landlord pertaining to the Leased Premises shall be deemed to be the obligation of the Tenant to be performed by and/or at the expense of the Tenant. If any payment or expense due by the Tenant in accordance with the terms of this Lease or any obligation of the Tenant required to be performed in accordance with the terms of this Lease is not paid or performed, respectively, by the Tenant when required to do so, then upon reasonable prior notice to the Tenant, the Landlord may pay the same or perform the obligations, respectively, and such amounts paid or the cost of performing such obligations, respectively, together with, in any case, all costs and expenses incurred by the Landlord in connection therewith, shall be payable by the Tenant to the Landlord upon demand.

**ARTICLE 4 – REAL PROPERTY TAXES**

**4.1            Payment of Real Property Taxes by the Tenant**

Without limiting the generality of Section 3.3, the Tenant shall promptly pay when due and payable to the municipality or taxing authority having jurisdiction all Real Property Taxes on or in respect of the Leased Premises failing which, upon reasonable prior notice to the Tenant, the Landlord may pay the same to such authority and such amount paid, together with all costs and expenses incurred by the Landlord in connection therewith, shall be payable by the Tenant to the Landlord upon demand. The Tenant shall also promptly pay when due and payable, to the taxing authority having jurisdiction, all business taxes, rates and levies imposed on the Tenant in respect of any business carried on in, or the use and occupancy of, the Leased Premises.

**ARTICLE 6 – UTILITIES**

**5.1            Utilities**

Without limiting the generality of Section 3.3, the Tenant shall pay or cause to be paid to the utility supplier as and when invoiced all charges incurred in respect of the Leased Premises for water, sewer, gas, electricity, light, heat and power and for telephone, protective and other communication services and for all other public or private utility services, which shall be used, rendered or supplied upon, to or in connection with the Leased Premises or any part thereof at any time during the Term or the Renewal Term.

**ARTICLE 6 – REPAIRS,  
MAINTENANCE AND ALTERATIONS**

**6.1 Repairs and Maintenance Obligations**

Without limiting the generality of Section 3.3, the Tenant, at its sole cost and expense, shall maintain and keep the Leased Premises and every part thereof in good order and condition and promptly make or perform all needed maintenance, repairs and replacements thereto (including, without limitation, repairs and replacements to structures, improvements or betterments).

With regards to structural issues of the Leased Premises, notwithstanding the above, the parties agree to the following:

- (i) The Tenant shall pay for regular maintenance of the Leased Premises, including maintenance on the structure.
- (ii) The Tenant shall be responsible for any structural issues, repairs or restoration caused by Tenant's failure to comply with (i) above or by any actions of the Tenant.
- (iii) The Landlord shall be responsible for direct costs of any structural maintenance, repairs or replacements where the conditions resulting in such structural maintenance, repairs or replacements exist as of the date of this Lease or where such conditions arise after the date of this Lease other than as a result of Tenant's failure to comply with (i) above or by any actions of the Tenant.
- (iv) Pursuant to Section 7.1 of this Lease, the Tenant is required to maintain insurance for the entire Leased Premises (including the structure), and in the event of any damage to the structure of the Leased Premises, the insurance proceeds shall be looked to first for the costs of repair.

**6.2 Tenant's Alterations**

If at any time and from time to time the Tenant shall at its own expense desire to make changes, including, without limitation, alterations or improvements in or to the Leasehold improvements or other portions of the Leased Premises, it shall perform such work in accordance with good engineering practice and in a workmanlike manner using high quality materials and with Landlord's prior written approval, which may be withheld by Landlord in its sole discretion. The Tenant shall in every case secure any and all necessary approvals of and permits for the related work from the authorities having jurisdiction and shall maintain adequate insurance for such work.

## ARTICLE 7 – INSURANCE, RELEASE AND INDEMNITY

### 7.1 Tenant's Insurance, Release and indemnity

The Tenant shall throughout the Term, and if applicable, the Renewal Term (as same may be extended), provide and keep in force comprehensive general public liability insurance (in an amount of not less than C\$5,000,000 for any one occurrence), fire insurance (on an "all risks" coverage basis and on the entirety of the Leased Premises (including, without limitation, on all structures and improvements located thereon or therein) in an amount not less than the full replacement cost thereof), broad form boiler and pressure vessel insurance (on a blanket repair and replacement basis), and business interruption insurance. Without limiting anything else contained herein, all insurance coverage shall be in amounts which are at least in line with industry standards for prudently operated businesses comparable to the Tenant's business and in accordance with the past practice of KK Precision Inc. and its affiliates. The Landlord shall be named first loss payee on the "all risks" and boiler and pressure vessel insurance and additional insured on the general public liability insurance. Except with respect to Environmental Liabilities which are addressed below, the Tenant hereby releases the Landlord and those for whom the Landlord is responsible from any and all liability related in any manner to matters for which the Tenant did or could have procured insurance, including, without limitation insurance not specified in this Lease but publicly available. Except with respect to Environmental Liabilities which are addressed below, the Tenant hereby agrees to indemnify and save Landlord harmless for and from all costs, including, without limitation, legal costs on a substantial indemnity basis, related in any manner to (i) any default by Tenant under this Lease, (ii) the negligent acts or omissions of the Tenant and its agents, employees, officers, directors, shareholders, advisors, invitees, contractors and all those for whom the Tenant is responsible, and (iii) the occupancy of the Leased Premises by Tenant. . Except with respect to Environmental Liabilities which are addressed below, the Tenant hereby agrees to indemnify and save the Landlord harmless for and from any actual, in-kind, special and other damages (including, but not limited to, loss of business) to the Tenant due to any and all factors not reasonably in the control of the Landlord and not caused by the gross negligence of Landlord, or its agents, employees, officers, directors, shareholders, advisors, invitees, contractors and all those for whom the Landlord is responsible, including, but not limited to, loss of power, water damage, damage to the Tenant's property howsoever caused and similar matters.

Landlord agrees that it will not assert that Tenant is liable for any Environmental Liabilities as a result of the occupancy by Tenant of the Leased Premises or the operations of the Tenant's business on the Leased Premises after the date of this Lease unless the Tenant does not comply with the following paragraph and such non-compliance is the cause of the applicable Environmental Liabilities.

Tenant shall:

(a) comply with all Environmental Laws governing a Release of Hazardous Substances if any such Release occurs on the Leased Premises as a result of the Tenant's occupancy of the Leased Premises;

(b) promptly notify Landlord of any Release of Hazardous Substances if any such Release occurs on the Leased Premises as a result of the Tenant's operation of its Business on the Leased Premises;; and

(c) maintain, comply with, and renew any Environmental Permits currently maintained by Tenant as required by Environmental Laws.

In the event of any substantial damage to the Leased Premises (such damage being ten percent (10%) or more of any tenanted building on the Leased Premises or twenty percent (20%) or more of the Leased Premises), then the Tenant shall have the right to terminate this Lease on thirty (30) days written notice to the Landlord or request that the Landlord restore the Leased Premises, but only to the extent that the costs of repair or restoration are fully covered by the insurance proceeds received on the Tenant's policies, and the Tenant shall have the right to abate its Rent during the time of repair. In the event of any serious damage to the Leased Premises (such damage being fifty percent (50%) or more of the Leased Premises), then the Landlord or the Tenant may terminate this Lease upon thirty (30) days written notice to the other party (but in any case the Landlord shall be entitled to the full amount of the insurance proceeds from the Tenant's policies in order to repair or restore the Leased Premises).

#### ARTICLE 8 -- RIGHTS ON DEFAULT

##### 8.1 Rights on Default

if and whenever the Tenant shall have breached or failed to comply with any of its covenants and agreements contained in this Lease, and shall have failed to remedy such breach or non-compliance within sixty (60) days after written notice thereof given by the Landlord to the Tenant (provided however that no time for the remedying of such breach or non-compliance shall or need be given or allowed where the breach or non-compliance is one not reasonably capable of being remedied within this sixty (60) day period), then and in every case it shall be lawful for the Landlord at any time thereafter, at its option and upon notice to the Tenant, to enter into and upon the Leased Premises or any part thereof in the name of the whole and to terminate this Lease or to exercise any of Landlord's other rights in law and in equity or (to the extent permitted by law) both, including but not limited to the right of the Landlord to evict the Tenant and/or its affiliates.

## ARTICLE 9 – ASSIGNMENT AND TRANSFER

### 9.1 Transfer by the Landlord

To the extent that any purchaser or transferee from or of the Landlord has become by written agreement bound and covenanted to perform the covenants of the Landlord under this Lease, the Landlord shall without further agreement be freed and relieved of liability upon such covenants and obligations.

### 9.2 Subordination and Attornment by the Tenant

This Lease is subject and subordinate to (but at the option of the Landlord or any mortgagee or encumbrancer of the Leased Premises shall be attorned and the Tenant bound to) any mortgage or other encumbrance which may now or at any time hereafter affect the Leased Premises. The foregoing provisions are declared to be self-operative and no further instruments shall be required to effect such subordination and/or attornment; provided, however, that subordination of this Lease to any present or future mortgage or other encumbrance shall be conditioned upon the mortgagee, beneficiary, encumbrancer or purchaser at foreclosure, as the case may be, agreeing in writing that Tenant's occupancy of the Leased Premises and other rights under this Lease shall not be disturbed by reason of the foreclosure of such mortgage or other encumbrance, as the case may be, so long as Tenant is not in default under this Lease. On request at any time and from time to time of the Landlord or of any such mortgagee or encumbrancer of the Leased Premises the Tenant covenants and agrees to either (i) attorn to such mortgagee or encumbrancer and become bound to it as its tenant of the Leased Premises for the then unexpired residue of the Term and, if applicable, the Renewal Term (as same may be extended) upon the terms herein contained (subject always to the respective priorities as between themselves of mortgagees or encumbrancers who from time to time request such attornment), or (ii) postpone and subordinate this Lease to such mortgage or other encumbrance with the intent to give effect to the foregoing. Whenever requested from time to time by the Landlord or any mortgagee or from any encumbrancer of the Leased Premises, the Tenant shall promptly execute and deliver to the party requesting the same a certificate or acknowledgment as to the status and validity of this Lease and the state of the rental account hereunder and such other information as may reasonably be required.

### 9.3 Assignment or Subletting by the Tenant

The Tenant shall not, without the prior written consent of the Landlord, which consent may be arbitrarily withheld, assign, encumber or mortgage this Lease or any part thereof or sublet all or any part of the Leased Premises and any such consent given in any one instance shall not relieve the Tenant of its obligation to obtain the prior written consent of the Landlord to any further assignment, encumbrance, mortgage or sublease. Notwithstanding the prior sentence, the Tenant shall be permitted to collaterally assign the Lease to one or more lenders of Tenant. Any Landlord consent to any transfer of Tenant rights shall not release Tenant from the performance of all its obligations hereunder.

9.4 Successors and Assigns

All the obligations imposed upon either party hereto shall extend to and be binding upon, as applicable, all successors, assigns, subtenants and encumbrancers of such party.

**ARTICLE 10 – MISCELLANEOUS**

10.1 Governing Law

This Lease shall be construed and governed by the laws of the Province of Ontario.

IN WITNESS WHEREOF the parties hereto have executed this Lease.

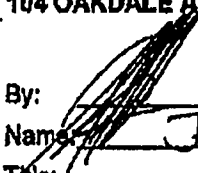
Landlord:

104 OAKDALE ACQUISITION CORP.

By:

Name:

Title:

  
Jesse Gill  
VP

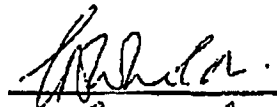
Tenant:

KK PRECISION INC.

By:

Name:

Title:

  
CARTH A. WHELDON  
PRESIDENT



## AMENDMENT TO LEASE

THIS AMENDMENT TO THE LEASE (the "Amendment") is entered into as of the 14 day of February, 2013, by and between 104 Oakdale Acquisition Corp., an Ontario corporation, (the "Landlord"), and KK Precision Inc., an Ontario corporation (the "Tenant").

WHEREAS, the Landlord and the Tenant entered into that certain Lease dated as of September 1, 2011 (the "Lease") (capitalized terms which are not defined herein shall have the meaning ascribed to them in the Lease); and

WHEREAS, certain parties which are related to the parties hereto desire to amend other agreements which were entered into on or about the date of the Lease; and

WHEREAS, the parties hereto desire to effectuate such amendments to the Lease as are detailed herein;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration received:

1) Amendments. The Landlord and the Tenant hereby agree to amend the Lease as follows:

a) The following language in Section 2.1 of the Lease is deleted in its entirety:

"...to have and to hold for the Term of one (1) year commencing on September 1, 2011 and ending on August 31, 2012."

and is replaced by the following language:

"...to have and to hold for the Term commencing on September 1, 2011 and ending on April 30, 2014."

b) The language in Section 2.2 of the Lease is deleted in its entirety.

c) A new Section 3.1(d) shall be added with the following language:

(d) Notwithstanding the foregoing, the Base Rent for the last two month of the Term shall be increased to \$16,000 per month, and the Tenant shall pay the aggregate Base Rent for the period from September 1, 2013 to the end of the Term in advance (\$95,000 being payable on or before September 1, 2013).

d) A new Section 6.3 shall be added to the Lease, with the following language:

"6.3 Agreed Upon Alterations.

Notwithstanding anything else contained herein, the Tenant and the Landlord hereby agree to the following:

(i) Three (3) air conditioning units have been replaced.

(ii) The roof of the Leased Premises may be repaired or replaced at the option of the Landlord.

(iii) The full costs and expenses (including all taxes, parts and installation) of (i) above and up to seventy thousand Canadian dollars (C\$70,000) of the full costs and expenses (including all taxes, parts and installation) of (ii) above shall be evenly split (50% each) between the Tenant and the Landlord (with any amounts over the C\$70,000 limit for (ii) above being borne by the Landlord). Each party agrees to pay to the other party or the applicable vendor, as the case may be, its portion of the costs and expenses relating to (i) and (ii) above promptly when due; provided, however, that the Tenant, at its option, may choose to amortize one-half (½) of its obligations over the remaining Term of the Lease beginning when such costs and expenses are incurred (with the upfront cash portion being borne by the Landlord); provided, however, that all unpaid amounts (amortized or otherwise) will be payable in cash by the Tenant to the Landlord immediately upon expiration or termination of this Lease or upon any default by the Tenant under this Lease or under any other agreement to which the Tenant is a party where there is a lien against any asset of the Tenant.

(iv) Both the air conditioning units (and related components) and the repaired or replaced roof (and related components), shall be deemed to be part of the Leased Premises delivered at the commencement of the Term and as such the Tenant shall maintain them as contemplated herein and they shall be delivered to the Landlord as part of the Leased Premises at the expiration or sooner termination of the Lease in the same state of repair and cleanliness as at the time they were installed, repaired or completed, as the case may be, normal wear and tear excepted.

(v) The Landlord will arrange for the work referenced in (ii) above to be completed. The parties agree that the work may be done while the Tenant is occupying the Leased Premises. The Tenant agrees to provide access to the Leased Premises for, and to fully cooperate with, any actual or potential vendors and the Landlord and with the work when and as it needs to be done. The Tenant will ensure that the insurance policies it is required to maintain hereunder are sufficient in scope and amount to cover any losses that may be incurred by the Tenant, the Landlord or the Leased Premises in connection with the work contemplated by this section, without limiting or reducing any other insurance requirement contemplated herein."

e) A new Section 10.2 shall be added to the Lease, with the following language:

**"10.2 Access.**

Upon reasonable notice by the Landlord, the Tenant agrees to provide access to the Leased Premises for the Landlord and any potential purchasers of the Leased Premises (including their advisors and agents) and to permit and fully cooperate with any testing or remediation work (including, without limitation, with respect to any structural issues and potential Environmental Liabilities or Environmental

Laws) required or requested by the Landlord or any potential purchaser of the Leased Premises.”

2) Miscellaneous

- a) Expenses. Each party hereto shall bear its own expenses with respect to this Amendment.
  - b) Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
  - c) Applicable Law: Venue. This Amendment shall be governed by and construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The parties hereto hereby irrevocably attorn to the non-exclusive jurisdiction of the courts of Ontario with respect to any matter arising under or related to this Amendment.
- 3) Original Lease. The Lease remains in full force and effect as amended hereby.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed and delivered this Amendment as of the date first written above.

LANDLORD:

104 OAKDALE ACQUISITION CORP.

By: 

Name:

Title:

Kathleen Casey  
Secretary/Treasurer

TENANT:

KK PRECISION INC.

By: \_\_\_\_\_

Name:

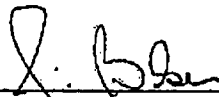
Title:

IN WITNESS WHEREOF, the undersigned has executed and delivered this Amendment as of the date first written above.

LANDLORD: 104 OAKDALE ACQUISITION CORP.

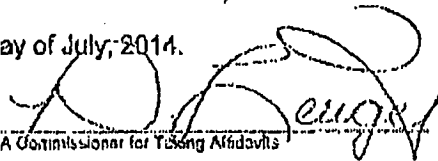
By: \_\_\_\_\_  
Name:  
Title:

TENANT: KK PRECISION INC.

By:  \_\_\_\_\_  
Name: James B. Baker  
Title: Chairman

---

This is Exhibit "B" referred to  
in the Affidavit of T.J. TERSIGNI  
Sworn this 30th  
day of July, 2014.

  
A Commissioner for Taking Affidavits

---

Mr. T.J. Tersigni, Commissioner for Taking Affidavits,  
1000 Lakeshore Blvd. West, Suite 1000,  
Oakville, Ontario L7L 1A1  
Tel: 905.738.8257

Jesse Gill, Vice President  
104 Oakdale Acquisition Corp.  
2 Bloor Street West, Suite 3400  
Toronto, ON M4W 3E2

George Koulakian, President  
KK Precision Inc.  
104 Oakdale Road  
Toronto, ON M3N 1V9

cc: Stuart English, McMillan LLP

May 1, 2014

Dear George,

As you are aware, KK Precision Inc. (the "Tenant," "you" or "your") has been in default on its obligations as are contained the lease between the Tenant and 104 Oakdale Acquisition Corp. (the "Landlord," "us," "we" or "our") dated September 1, 2011 and amended on February 1, 2013 (together, the "Lease"; capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Lease), including, but not limited to, missed and late payments to the Landlord. We confirm that we provided notice of default numerous times verbally as well as in writing on November 1, 2013, and that all cure periods provided for in the Lease have now expired. Further, the Lease expired as of April 30, 2014, after which date the Tenant was to have vacated the property and all outstanding payments due under the Lease were to have been made.

On January 21, 2014 we confirmed in writing, and we reiterate now, that although we have refrained from exercising certain right and remedies available to us under the Lease in respect of your default, we reserve all such rights and remedies thereunder, except to the extent expressly amended by your agreement to the terms set out below (and subject to due performance of such agreement, your tenancy shall be in good standing and, provided the Leased Premises have been vacated and surrendered in the Return State (as defined below) by the Termination Date, no other amounts will be owed by either the Tenant to the Landlord or the Landlord to the Tenant (other than the Landlord's return of any unused portion of the Security Deposit (as defined below))).

Notwithstanding the foregoing, and without prejudice to any rights available to the Landlord in the event you do not comply with all of the terms set out in the Lease Agreements (as defined below), the Landlord agrees to extend the term of the Lease on the same terms and with the same obligations on the Tenant and Landlord as in the Lease, including (without limitation) the same Rent (and for clarity, the Base Rent will be \$16,000 per month plus HST) until September 30, 2014, or such date as otherwise agreed to by the parties in writing (the "Termination Date"), provided:

- (a) the Landlord is immediately paid the sum of \$122,974.10 (the "Advance Rent"), being the sum of the Rent owing under the Lease (five (5) months of Base Rent and HST, and including five (5) months of estimated of property tax (\$5,514.82 per month) and utility payments (\$1,000 per month), but excluding interest on missed payments) through the Termination Date;
- (b) the Tenant hereby agrees to completely vacate and surrender the Leased Premises in accordance with the Lease and this letter agreement (together the "Lease Agreements") no later than the Termination Date, except that (x) the Tenant shall leave in place as part of the

Leased Premises owned by the Landlord those items as outlined in subclause (i) of Section 2.3 of the Lease (which for clarity shall remain the property of the Landlord) and (y) there shall not be a maximum on the Foundation and Floor Costs in subclause (ii) of Section 2.3 of the Lease;

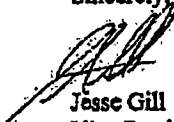
- (c) the Tenant will advance to us a \$100,000 security deposit (the "Security Deposit"), which will be dealt with as follows:
- i. the Security Deposit will be used by the Landlord to return the Leased Premises to the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear excepted, (the "Return State"), consistent with the Tenant's obligations under the Lease Agreements, in the event the Tenant does not restore the Leased Premises to the Return State by the Termination Date.
  - ii. any application of the Security Deposit shall be in accordance with the terms of the Lease Agreements and will be against actual repair, restoration, cleaning or other similar invoices from third-party suppliers, and the Landlord will promptly provide copies to the Tenant and the court-appointed monitor (if any) of such invoices;
  - iii. the Landlord will promptly return any unused portion of the Security Deposit to the Tenant following the Tenant's vacation and surrender of the Leased Premises and satisfaction of the Tenant's obligations under the Lease Agreements and the successful completion of any required repair, restoration or cleaning work;
  - iv. the Tenant's advancement of the Security Deposit does not in any way limit any of the Tenant's obligations under the Lease Agreements; the Tenant hereby agrees that if the Security Deposit not sufficient to satisfy such obligations, then the Tenant will pay for any other costs required to return the Leased Premises to the Return State consistent with the Tenant's obligations under the Lease Agreements and for any other costs in accordance with the Lease Agreements;
  - v. in addition to anything else contained herein or in the Lease Agreements and without limiting any other rights of the Landlord under the Lease Agreements, should the Leased Premises not be vacated and surrendered by the Termination Date in the Return State, the Security Deposit may be retained by the Landlord to satisfy its lost rental income during the period required to restore the Leased Premises to the Return State and vacant (due to the property not being saleable or rentable in the desired state), assuming the same Rent per this letter agreement (a full month's Rent being payable in respect of any part of a month during such period)
  - vi. for clarity, the Tenant shall remain responsible for all of its obligations contained in the Lease Agreements and the Security Deposit is not a substitute or an exclusive remedy for such obligations; and
  - vii. notwithstanding anything else contained herein or in the Lease Agreements, and without limiting any rights of the Landlord under the Lease Agreements, if the Leased Premises are not vacated and surrendered by the Tenant by the Termination Date, then unless otherwise agreed to in writing (signed) by both the Landlord and the Tenant, the Tenant hereby agrees and gives its irrevocable consent to the Landlord that the Landlord may evict the Tenant without notice at any time after the Termination Date;
- (d) without limiting any obligations of the Tenant in the Lease Agreements, the Tenant hereby agrees to use due care and commercially reasonable efforts to minimize any damage to the Leased Premises and to minimize the amount of repair work required to return the Leased Premises to the Return State in both its ongoing operations and the removal of any of the Tenant's property from the Leased Premises;



- (e) the Tenant will prepay all required insurance it is required to maintain in accordance with the Lease (including, without limitation, as outlined in Article 7 of the Lease) through the Termination Date and will deliver evidence to our satisfaction of such prepayment (the "Insurance Prepayment Evidence") to us, within 7 days of execution of this letter agreement (failing which, the Tenant will be in default and the Landlord may, in addition to other remedies available to us and without limiting your obligations under the Lease Agreements, at our option, terminate the Lease or make such insurance prepayments on the Tenant's behalf and apply the Security Deposit to such prepayments);
- (f) notwithstanding the foregoing or anything else in the Lease Agreements, the Landlord may, at its sole option and with no notice required, terminate the Lease at any time on or after the signing, by or on behalf of the Tenant or its creditors, of a binding agreement to sell the shares of the Tenant or other ownership interest in the Tenant or all or substantially all of the Tenant's assets for the purpose of continuing the business as a going concern; provided that the Landlord's other rights under the Lease Agreements will not be diminished by such termination;
- (g) for clarity, notwithstanding anything else contained in the Lease Agreements, the Landlord may sell the Leased Premises at any time prior to or following the termination of the Lease, but if prior to the Termination Date (or if the Lease is terminated earlier, such date of termination), any purchaser or transferee from or of the Landlord shall have become by written agreement bound to perform the covenants of the Landlord under the Lease Agreements (in which case, the Landlord shall without further agreement be freed and relieved of any liability upon the covenants and obligations under the Lease Agreements); and
- (h) you have executed and delivered the Mutual Termination & Release attached hereto.

Please respond promptly confirming your acceptance of this letter agreement and agreement to the terms contained herein by signing and returning a copy of this letter. Additionally, please send the Advance Rent, the Security Deposit and the executed Mutual Termination & Release to me promptly. This letter agreement will be effective immediately upon, but only upon, receipt of by us of your signature to this letter agreement, the Advance Rent, the Security Deposit and the executed Mutual Termination & Release. I can be reached any time at 917.969.3553 or [jg@terravapartners.com](mailto:jg@terravapartners.com).

Sincerely,



Jesse Gill  
Vice President, 104 Oakdale Acquisition Corp.

Agreed to effective this 1<sup>st</sup> day of May, 2014.

**KK PRECISION INC.**

Per: \_\_\_\_\_

Name: George Kouliakian

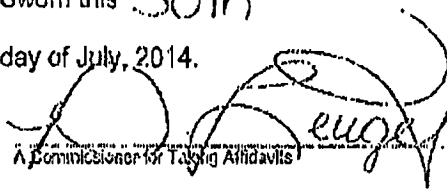
Title: President

I have authority to bind the Corporation.

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This is Exhibit "C" referred to  
in the Affidavit of T.J. TERSIGNI

Sworn this 30th  
day of July, 2014.



Eugene  
A Commissioner for Taking Affidavits

---

Madame Justice  
Justice of the Peace  
Barristers and Solicitors  
Expiry: July 4, 2015.



MINDEN GROSS LLP  
BARRISTERS & SOLICITORS  
145 KING STREET WEST, SUITE 2200  
TORONTO, ON, CANADA M5H 4G2  
TEL 416.362.3711 FAX 416.864.9223  
www.mindengross.com

DIRECT DIAL (416) 369-4148  
E-MAIL dullmann@mindengross.com  
FILE NUMBER 4090023

June 19, 2014

*VIA E-MAIL (john.salmas@dentons.com)*

Mr. John Salmas  
Dentons LLP  
77 King Street West  
Suite 400  
Toronto, Ontario  
M5K 0A1

Dear Sir:

**Re: KK Precision Inc.**

As you are aware, we are counsel to 2215225 Ontario Inc., the landlord of the premises occupied by KK Precision Inc. (the "Company") being 104 Oakdale Road, Toronto, Ontario (the "Premises").

We have been provided with a copy of the Company's mailing dated June 16, 2014 (attached) under which the Company is soliciting offers to liquidate the assets on the Premises. We note that under your sales process all offers are due by July 7, 2014 and that all parties submitting an offer must confirm that they are prepared to have all assets removed by September 30, 2014.

We appreciate you making it clear to the potential purchasers that they must be out of the Premises by September 30, 2014. We wish to clarify that in addition to being out of the Premises by September 30, 2014, they must also, or the Company must also, have complied with all the provisions of the lease with respect to the careful removal of the assets and repair of the Premises. We are advised by our client that it is not realistic to expect parties to remove assets on September 30, 2014 and also comply with the lease.



Therefore, we would suggest that the correct date for assets to be removed from the Premises would at least be 15 days before September 30, 2014.

Secondly, we would also advise you that our client has been approached by several auctioneers who have indicated that they do not believe that they will be able to make a bid to remove the assets by September 30, 2014. Our client is also of the view that your proposal timeline is likely unrealistic.

We are writing this letter to confirm that the Company has no right to continue to occupy the Premises beyond September 30, 2014 and that we expect the Company and any auctioneer hired in accordance with the Company's sales process to abide by that deadline. At this time, our client is not prepared to enter into any deal for the extension of this timeline as it has other uses for the Premises which are now scheduled to commence on October 1, 2014.

Yours truly,

MINDEN GROSS LLP

Per:

A handwritten signature in black ink, appearing to read "D. T. Ullmann", is written over a faint, circular stamp or watermark.

David T. Ullmann  
DTU/nh



**KK Precision Inc.**

104 Oakdale Road  
Toronto, Ontario,  
Canada M3H 2V9  
Tel: (416) 742-5911  
Fax: (416) 742-5366  
www.kkprecision.com

June 16, 2014

**KK Precision Inc. ("KKP" or the "Company") – Request for Offer to Purchase Assets**

Dear Sirs:

On May 30, 2014, KKP obtained an order (the "Initial Order") of the Ontario Superior Court of Justice (Commercial List), pursuant to the Companies' Creditors Arrangement Act (the "CCAA"). Richter Advisory Group Inc. (the "Monitor") was appointed as Monitor of the Company during its CCAA proceedings.

Located in Toronto, Ontario, KKP manufactures medium-to-large, highly complex gas turbine engine components and sub-assemblies used in the energy, marine and defence sectors.

At this time, the Company is pursuing an orderly wind-down of its operations, and will be continuing production activities until August 31, 2014, at the latest, pursuant to the terms of an Accommodation Agreement approved in the Initial Order.

KKP, in consultation with the Monitor, is soliciting offers to purchase the Company's production assets (as detailed in the attached machinery and equipment listing), or alternatively in respect to the business on a going concern basis, as appropriate (the "Sale Process"). The Monitor will be involved in all aspects of the Sales Process to ensure that the marketing process is reasonable and that prospective interested parties have the ability to make an offer for the Company's assets.

Prior to the Company's CCAA proceedings, certain interested parties submitted offers to KKP to purchase its machinery and equipment (the "Initial Offers"). Parties that submitted Initial Offers, which they want the Company to consider as part of the Sales Process, are required to confirm the terms of their Initial Offer in writing to the Company and the Monitor. Parties that submitted Initial Offers are, however, permitted to amend their offer in accordance with the procedures set out herein. Initial Offers, which are not confirmed in writing to the Company and Monitor, will not be considered.

Offers to purchase the Company's assets are required to be submitted on or before 5:00 p.m. EST, Monday, July 7, 2014. With respect to KKP's machinery and equipment, only en bloc offers will be considered. Offers must include the following items:

- 1) the price to be paid and the form of consideration;
- 2) the assets to be purchased (other than machinery and equipment detailed in the attached listing, which must be included en bloc, as part of any qualified offer);
- 3) conditions precedent; and
- 4) any other material terms to the offer.

Please note that the successful offeror will be required to remove all purchased assets from the Company's facility located at 104 Oakdale Road, Toronto, Ontario by no later than **September 30, 2014**.

Parties interested in viewing and inspecting the Company's machinery and equipment should contact Mr. Garth Wheldon at 416-742-5911 or [gwheldon@kkprecision.com](mailto:gwheldon@kkprecision.com) to schedule an appointment to attend at the Company's premises.



204 Oakdale Road  
Toronto, Ontario,  
Canada M3N 1V9  
Tel: (416) 742-5922  
Fax: (416) 742-5166  
www.kkprecision.com

All offers will be reviewed by the Company, in consultation with the Monitor, and subject to the Company's and/or the Monitor's discretion, additional clarifications and negotiations may be required.

The Company reserves the right to negotiate with one or more interested parties at any time and to enter into a definitive agreement without notice to any other interested party. The Company and the Monitor reserve the right not to pursue a transaction of the nature contemplated hereby and to terminate, at any time, in their sole discretion, further participation in the investigation process by any interested party and to modify any data, documentation or other procedures, as may be necessary, without giving any reason therefor.

The acceptability of any offer received is to be determined by the Company in consultation with the Monitor. The Sales Process contemplates that the Company is not required to accept the highest, best or any offer received. In the event that an offer is acceptable, the successful offeror will be provided with a template asset purchase agreement which will form the basis of the transaction. Please note that any sale of the Company and/or its assets will be subject to the approval of the Ontario Superior Court of Justice (Commercial List), which approval will be sought by KKP prior to the end of July 2014.

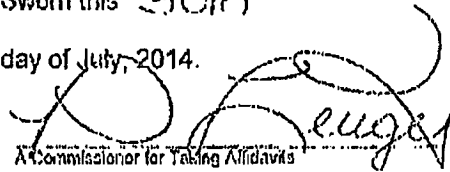
All inquiries regarding the Company and/or the Sales Process, including any requests for additional information or to submit offers to purchase the Company's assets, should be directed to the following individuals:

KK Precision Inc.  
Garth Wheldon  
416-742-5911  
gwheldon@kkprecision.com

Richter Advisory Group Inc.  
Adam Sherman  
416-642-4836  
asherman@richter.ca

---

This is Exhibit "D" referred to  
in the Affidavit of T.J. TERSIGNI  
Sworn this 30th  
day of July, 2014.



A Commissioner for Taking Affidavits

---

Paul J. Ledges, a Justice of the Peace,  
Province of Ontario, for Muskoka District,  
Barristers and Solicitors,  
Toronto, Ontario, Canada.  
Expiry Date: July 4, 2015.

---

**From:** David Ullmann  
**Sent:** Wednesday, June 25, 2014 1:06 PM  
**To:** Marc A. Eli Swirsky | AccuVal - LiquiTec  
**Subject:** RE: KK Precision

Marc,

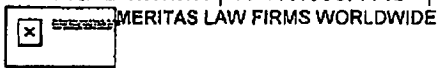
Thank you for the follow up. I have been advised that, at this time our client is not entertaining any offers to allow anyone to stay past September 30<sup>th</sup>. As to their possible interest in some of the machines, I expect our client will review that with whomever is selected as the successful auctioneer. Good luck.

Regards,

David

---

**David Ullmann** | T: 416.369.4148 | F: 416.864.9223 | [www.mindengross.com](http://www.mindengross.com)



**From:** Marc A. Eli Swirsky | AccuVal - LiquiTec [mailto:[mswiper@accuval-liquitec.net](mailto:mswiper@accuval-liquitec.net)]  
**Sent:** Wednesday, June 25, 2014 1:01 PM  
**To:** David Ullmann  
**Subject:** KK Precision

David:

Touching base regarding your client, the new owner, of the KK property.

Last we spoke you were going to speak with your client with regard to how much he wants for rent on a weekly basis for the facility. As discussed, due to the time constraints on the deal we'll need more time to conduct a proper sale.

Also, as you mentioned, he may want some machines.

Please give me a ring back when you get a chance so we can follow-up.

Thanks in advance.

MAS

Marc A. Eli Swirsky, C.E.A.  
President - Liquidation Services  
**AccuVal-LiquiTec**  
21949 Plummer Street  
Chatsworth, CA 91311 United States  
P: 818 350-8060  
C: 818 917-3956



F: 262-240-8956

[mswirsky@accuval-liquitec.net](mailto:mswirsky@accuval-liquitec.net) | [accuval-liquitec.net](http://accuval-liquitec.net)

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Valuations & Liquidations of:

BUSINESS ENTERPRISES | EQUITY & STOCK | BONDS | INTELLECTUAL PROPERTY | INVENTORY | MACHINERY & EQUIPMENT | REAL ESTATE

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Keep up-to-date with us on [Twitter](#), [LinkedIn](#), [Facebook](#), or by [Email](#)

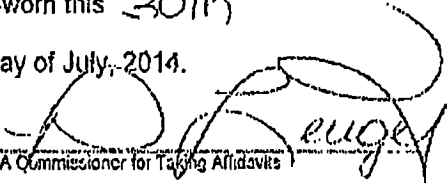
<p>Marc A. Eli Swirsky AccuVal-LiquiTec President - Liquidation Services (187) 350-8060 Work (187) 917-3956 Mobile <a href="mailto:mswirsky@accuval-liquitec.net">mswirsky@accuval-liquitec.net</a> 21949 Plummer Street Chatsworth, CA 91311 <a href="http://www.liquitec.net">www.liquitec.net</a></p>
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NOTICE: If received in error, please destroy and notify sender. Sender does not intend to waive confidentiality or privilege. Use of this email is prohibited when received in error.

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This is Exhibit "E" referred to  
in the Affidavit of T.J. TERSIGNI  
Sworn this 30th  
day of July, 2014.

  
A Commissioner for Taking Affidavits

---

Pauline Trossi, a Commissioner for  
Taking Affidavits, for Martin G. Trossi,  
Barretts and Solicitors,  
Lagos, July 3, 2015.

---

**From:** David Ullmann  
**Sent:** Friday, July 18, 2014 4:17 PM  
**To:** Sherman, Adam; John J. Salmas (john.salmas@dentons.com); Sam Rappos (samr@chaitons.com)  
**Subject:** RE: Site Visit re KKP

Mr. Sherman,

Further to our meeting on Wednesday and our telephone call today, it is the position of my clients, having now conducted a preliminary review of the Premises, that the following items need to be corrected, repaired or restored in order for the Company's vacation of the Premises to be in accordance with the terms of the lease which governs the Premises.

1. Pits under Machines: As you are aware, almost every machine which is subject to the proposed sale process is currently located above or in a pit recessed into the floor. Each such pit must be restored to grade in a safe and workmanlike manner.
2. Environmental issues re Pits: Prior to any restoration work being conducted, however, the machines in question will have to be removed to allow an environmental review and inspection of the pits. The machines in question have been resident for 20 plus years and it is very likely there are solvents or other chemicals under the machines which will have to be dealt with prior to the pits being filled. It is not acceptable that the pits be covered prior to such a review being conducted and such cleaning completed.
3. Environmental issues re External Solvent Storage and Leaks: An inspection of the perimeter of the building demonstrates apparent leaks of potentially hazardous material and oil into the asphalt and possibly the building foundation at several places. These leaks must be investigated and cleaned. In particular:
  - a. At the rear of building, which shows leaching of chemicals into the pavement and sidewalk area
  - b. On the wall adjacent to compressor area, which shows oils or other fluids which have leaked outside of the building
  - c. In an around the storage area for solvents in plastic drums near Oakdale Rd
  - d. There is a possible external leak at front of building, which had previously been observed oozing through a small 2 inch diameter access hole in the wall
4. Internal Environmental Review: The interior of the building should also be inspected for environmental issues and safely cleaned where necessary.
5. Roof Restoration: It is apparent that there are numerous holes in the roof where machinery and HVAC have been removed. Other holes may be made by machinery yet be removed. These holes must be fixed.

6. Restoration of Loading Bay: The South side main door has been removed and blocked in. The door must be returned to being a usable access point. In addition, the south side dock has been sealed and obstructed. This must be returned to original state.
7. HVAC: All HVAC must be inspected and tested
8. Asphalt: Apparently due to outside storage of raw materials and storage containers, plus harsh weather conditions this year, it is apparent that all of the asphalt in the main loading area must be repaired and re-graded. This may be even more apparent when temporary storage is removed from the drive way.
9. Interior Temporary Structures: There are a variety of temporary structures or rooms which have been added to the interior of the premises. All additions of temporary rooms, such as in the compressor area or the inspection area, must be removed.
10. Flooring: The epoxy must be removed from the floor throughout the main building so that the floor throughout the building is returned to its original state.
11. Landscaping: The landscaping is in complete disarray. Grass must be mowed and damaged railing must be repaired.
12. Stairs: The front stairs to the building are broken and constitute a hazard. They must be replaced.
13. Holding Pen: The temporary fencing which creates the holding area in the rear yard must be removed and the asphalt repaired
14. Windows: It appears that 50-60% of all the windows have been damaged and must be replaced
15. Electrical: All electrical wiring must be safely capped upon the removal of equipment. Additional or surplus wiring installed by the tenant must be removed and the remaining connections made safe. Additional electrical issues may become apparent upon the removal of the assets.

The foregoing is not necessarily an exhaustive list. I am advised by my clients that they expect that further issues may become apparent from a more professional review.

In addition to the foregoing, and without limiting the need for a further environmental review to be done, we understand that you have a recent environmental survey of part of the property. Please provide a copy of same for our review as soon as possible.

As you are aware, and as we said at the meeting, at this time, our clients estimate the costs for the above repairs to have an aggregate cost of at least \$500,000. It is suggested that an expert be retained to validate these costs. We confirm that any environmental survey or expert's report with respect to these issues will be at the cost of the company and not my clients.

Please provide us with a timeline which the company intends to follow with respect to performing the auction and attending to the repairs listed above. We would like to ensure that there can be certain milestones at which the landlord, or its representative, can attend in order to assess progress. The Landlord remains concerned that the timing proposed by the company is very aggressive. In particular, the issue with the pits, which will take time to properly clean and fill, cannot be assessed until the machines are removed, which will presumably not be until mid-September at the earliest.

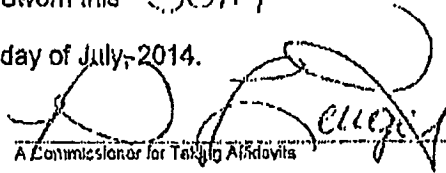
We confirm that the above costs do not include such additional costs as may be required to repair any additional damage as may be done as a result of the removal from the premises of the machinery, equipment and materials (including any and all hazardous materials), which the tenant must remove upon the completion of the lease. This would presumably include any assets or machinery which are not sold at auction, but which we presume the auctioneer is undertaking to remove itself after the sale.

Regards,

David Ullmann

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This is Exhibit "F" referred to  
in the Affidavit of T.J. TERSIGNI  
Sworn this 30<sup>th</sup>  
day of July, 2014.



A Commissioner for Taking Affidavits

---

Michael T. Tetsch, a Commissioner, etc.,  
of the County of Ontario, for Michael Cross LLP,  
of the County of Ontario,  
on July 30, 2014.

**DENTONS**

John Salmas

john.salmas@dentons.com  
D +1 416 863 4737

Salmas FMC SNR Denton  
dentons.com

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

T +1 416 863 4511  
F +1 416 863 4592

July 24, 2014

File No.: 657860-1

SENT VIA E-MAIL (dullmann@mindentgross.com)

David T. Ullmann  
Minden Gross LLP  
145 King Street West  
Suite 2200  
Toronto, Ontario  
M5H 4G2

Dear David:

**RE: KK Precision Inc. return of the 104 Oakdale road premises**

As you are aware we are counsel to KK Precision Inc. (the "Company"). We have been provided with a copy of your July 18<sup>th</sup> email (the "July 18<sup>th</sup> Email") and have been instructed to provide this response.

The Company has been operating out of the premises located at municipal address 104 Oakdale road, North York (the "Premises") for upwards of 20 years. The Company's rights in the Premises have been defined by various agreements over that time period, many of which are no longer applicable. On September 1, 2011, the Company entered into a lease agreement (the "Lease") with 104 Oakdale Acquisition Corp. (the "Prior Landlord"). The Lease was amended by an amendment to lease, entered into as of February 1, 2013 (the "First Lease Amendment") and amended further by a letter agreement effective as of May 1, 2014 (the "Letter Agreement", together with the First Lease Amendment and the Lease, the "Lease Documents"). The Lease Documents do not refer to, or rely upon, any pre-existing agreement, lease or grant of rights in the Premises by the Landlord to the Company that predates the Lease. In other words, the Lease Documents represent an accurate representation of the complete agreement between the parties with respect to the Company's lease of the Premises.

On May 30, 2014 (the "Filing Date"), the Honourable Justice Wilton-Siegel of the Ontario Superior Court of Justice (Commercial List) (the "Court") granted an order pursuant to the provisions of the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, as amended, which among other things provides that no party shall discontinue any contract with the Company without the written consent of the Monitor or leave of the Court. It is our understanding that any assumption of the lease by your client, 2215225 Ontario Inc. (the "Landlord") happened after the Filing Date and that a valid and binding assumption agreement was executed. We would request that you please provide us with a copy of that agreement as soon as possible. It would be our expectation that through its due diligence in connection with its purchase of the Premises, the Landlord would have understood the rights of the Prior Landlord pursuant to the Lease Documents in executing the assumption agreement.

We understand from the July 18<sup>th</sup> Email that your client's position is that the Company is obligated to ensure that all of the items identified therein are "corrected, repaired or restored in order for the Company's vacation of the Premises to be in accordance with the terms" of the Lease Documents. We

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respectfully disagree that all of these items need to be addressed in order for the Company to be compliant with the terms of the Lease Documents.

It is the Company's position that the condition of the Premises at the expiry of the Term<sup>1</sup> (the "Return State") and the Company's obligations to deliver the Premises to the Landlord in the Return State are expressly defined by the Lease Documents. The Company takes this position is based on the following sections of the Lease Documents:

- *S. 1.17 of the Original Lease*  
"TERM" means the term of this Lease as specified in Section 2.1
- *S. 2.1 of the Original Lease*  
In consideration of the rents, taxes and other payments, covenants and agreements hereinafter reserved and contained on the part of the Tenant to be respectively paid, observed and performed, the Landlord does demise and lease the Leased Premises, for the sole use as a manufacturing facility and offices in accordance with all applicable laws, by-laws and regulations, unto the Tenant, to have and to hold for the Term of one (1) year commencing on September 1, 2011 and ending on August 31, 2012. [emphasis added]<sup>2</sup>
- *S. 2.3 of the Original Lease*  
Upon the expiration or sooner termination of this Lease (including, but not limited to, at the expiry of the Term or if extended at the expiry or termination of the Renewal Term), the Tenant shall vacate and surrender to the Landlord the Leased Premises in the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear excepted, and the Tenant will restore the Premises accordingly. The Tenant will remove any and all such fixtures and other items that Landlord may identify from the Leased Premises and restore the Leased Premises accordingly. Notwithstanding the foregoing, Tenant's obligation to remove fixtures and other items will not apply to any fixtures or items that were so placed or installed in or on the leased Premises prior to the commencement of the Lease. For clarity, (i) the Tenant may, at its option, but shall not be required to remove the cranes, compressors or outside storage fence, (ii) Tenant shall be required to fill in the machine foundations and power wash the floors and walls; provided, however, the Tenant shall only be responsible for any costs of filling in the machine foundations and power washing up to a maximum of \$50,000 (the "Foundation and Floor Costs"). The Tenant shall use commercially reasonable efforts to minimize the Foundation and Floor Costs. Any damage due to the Tenant's (or its subsidiaries, subcontractors, employees, officers, directors, consultants, shareholders, associates or affiliates) operations or actions, removal of machinery or other fixtures prior to or at the end of the Term or the Renewal

<sup>1</sup> as defined in the Lease Documents

<sup>2</sup> Such Term was subsequently extended by paragraph 1 of the First Lease Amendment until April 30, 2014 and the third paragraph of the Letter Agreement until September 30, 2014.



Term (as same may be extended) shall be repaired by and at the cost of the Tenant. [emphasis added]

- *Para 3(c)(i) of the Letter Agreement*  
the Security Deposit will be used by the Landlord to return the Leased Premises to the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear excepted. (the "Return State"), consistent with the Tenant's obligations under the Lease Agreements, in the event the Tenant does not restore the Leased Premises to the Return State by the Termination Date. [emphasis added]

As such, it is the Company's position that the Return State is the state of the Premises at September 1, 2011 – being the "commencement of the Term" under the Lease Documents.

Pursuant to the Letter Agreement, the Landlord is currently holding \$100,000 as a Security Deposit (the "Security Deposit") that is to be used in accordance with paragraph 3(c) of the Letter Agreement. The Company and the Monitor have reviewed the current state of the Premises and the Company believes that the \$100,000 Security Deposit is sufficient to conduct all of the necessary repairs to the Premises in order to effectuate the Return State.

Notwithstanding, the above Company, in consultation with the Monitor, has reviewed the list you have provided and, in an effort to deal with all alleged Premises rectification issues, the Company is agreeable to make certain of your clients requested repairs to the Premises. The Company agrees to deal with the requested repairs as follows:

1. **Pits under Machines:** We acknowledge that it is the responsibility of the Company to fill the pits under the machines in accordance with the Lease Documents. The Company has consulted with NRF Contracting Ltd. ("NRF") in order to have that process completed prior to vacating the Premises. NRF was the company responsible for the original construction of the pits and has knowledge regarding how to properly fill the pits and account for any potential environmental hazards, which we are not aware of any.
2. **Environmental Issues:** As a proxy for the condition of the Premises at September 1, 2011, a Phase I Environmental Site Assessment (the "Phase I Report") was prepared by Conestoga-Rovers & Associates ("CRA") for River Associates Investments, LLC in August 2011. The Phase I Report was based on a visual inspection / historical review of the Premises and noted the potential sources for environmental contamination.

A subsequent Phase II assessment (the "Phase II Report" and together with the Phase I Report, the "Reports") was prepared by CRA for the Prior Landlord and Precinda Corp. (the predecessor-in-interest to the Company) and completed in July 2013. Physical testing of the Premises was done to complete the Phase II Report, which indicated that there was no evidence of groundwater impacts or soil impacts and that there was no need for a further site assessment or remediation work to be done on the Premises. As the new Landlord of the Premises, we assume that your client received these Reports as a part of a due diligence process undertaken in purchasing the Premises, but for ease of reference I have enclosed the Reports (without appendices) with this letter.

The process to complete the Phase II Report took six weeks to complete and was disruptive to the operations of the business. Given that the last environmental assessment was completed a

year ago and, with no major changes to the operations or the Premises since such date, a further assessment would be superfluous. The Company is not aware of any environmental issues but will pressure wash the walls and floors as required to clean any of the current visible markings.

3. **Roof Repairs and HVAC:** The Company will attend to any HVAC issues and to the extent that the roof repairs are related to the HVAC system and/or the removal of equipment the Company will repair the roof. Any other rectification issues in respect of the roof which are the result of normal wear and tear will not be attended to by the Company.
4. **Restoration of south side door, loading bay and removal of internal structures:** The south side door was blocked and the internal structures were erected prior to the commencement of the Lease on September 1, 2011. Therefore it is the Company's position that the Premises will be delivered in the Return State which includes leaving the south side door, the loading bay door and the internal structures in the current condition.
5. **Asphalt:** As you note the condition of the asphalt may have been affected by the harsh weather this past winter. The Company would characterize any change in the condition of the asphalt as a result of harsh weather and storage of containers to be 'normal wear and tear'.
6. **Landscaping, ralling, stairs, windows and electrical:** The company will ensure that these items are in the same state of repair and cleanliness as they were in at the commencement of the Term, reasonable wear and tear excepted. Any broken windows will be replaced and the electrical will be safely capped upon the removal of the equipment.
7. **Holding Pen:** Section 2.3 of the Lease expressly states that: "For clarity, (i) the Tenant may, at its option, but shall not be required to remove the cranes, compressors or outside storage fence". At this point in time the Company will not be exercising such option but reserves the right to remove the fence prior to vacating the Premises if it subsequently deems it appropriate to do so.

The Company's estimated cost to bring the Premises to the same state of repair and cleanliness as it was at September 1, 2011, reasonable wear and tear excepted, is approximately equal to the amount of the Security Deposit. To the extent that the costs of the action plan provided herein are greater than the estimate, the Company agrees to pay for and undertake those repairs. This offer to deal with the Premises is provided on the pre-condition that the Security Deposit will be released by the Landlord to the Monitor to be held in trust for the benefit of the Company and the Landlord. The Security Deposit will be released by the Monitor to the Company on the delivery of (i) proof of expenses and (ii) a commitment by the Company to pay any overage cost to effectuate the required repairs as detailed herein. In the event that the full amount of the Security Deposit is not required to be utilized to effectuate the repairs, any unused portion will be returned to the Company.

The auction for the Company's assets will take place on September 10, 2014 with the removal of the assets to commence on that date and culminate on or before September 30, 2014. The Company will be bringing a motion to approve the auction transaction on August 1, 2014.

In the event that your clients wish to engage an expert to assess the Premises, the Company is not adverse to such a process. Provided however, any such expert is able to ascertain the condition of the Premises as of September 1, 2011 and will base any findings and recommendations or list of "required repairs" are based on returning the Premises to the same state of repair and cleanliness as it was at September 1, 2011, reasonable wear and tear excepted.

Yours truly,  
Dentons Canada LLP



John Salmas

Enclosures (2)

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

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at TORONTO

**AFFIDAVIT OF T.J. TERSIGNI  
(Sworn July 30, 2014)**

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## APPENDIX F

**RICHTER**

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**KK PRECISION INC.**

**SUPPLEMENT TO THE SECOND REPORT OF RICHTER ADVISORY GROUP INC.,  
IN ITS CAPACITY AS MONITOR OF  
KK PRECISION INC.**

**JULY 31, 2014**

**Table of Contents**

Introduction..... 1  
Purpose of this Report..... 2  
Terms of Reference..... 2  
The Landlord..... 2  
Monitor's Conclusions and Recommendation..... 5

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

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

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

SUPPLEMENT TO THE SECOND REPORT OF RICHTER ADVISORY GROUP INC.  
In its capacity as Monitor of KK Precision Inc.

July 31, 2014

**Introduction**

1. On May 30, 2014, the *Ontario* Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting KK Precision Inc. (the "**Company**") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter Advisory Group Inc. was appointed the Company's monitor (the "**Monitor**"). The Initial Order provided the Company with, *inter alia*, a stay of proceedings until June 29, 2014 (the "**Stay Period**"). The proceedings commenced by the Company under the CCAA are herein referred to as the "**CCAA Proceedings**".
2. On June 25, 2014, the Court issued an order (the "**June 25 Order**"), among other things, extending the Stay Period to September 19, 2014, and approving the process commenced by the Company to solicit offers for the Company's business and/or assets (the "**Solicitation Process**"). A copy of the June 25 Order is attached as Appendix "A" to the Monitor's second report dated July 25, 2014 (the "**Second Report**"). The Second Report was filed in support of the Company's motion returnable August 1, 2014 seeking, among other things, the Court's approval of the proposed liquidation of the Company's machinery and equipment (the "**Assets**") by Infinity Asset Solutions Inc. ("**Infinity**") and the Liquidation Services Agreement ("**LSA**") dated July 25, 2014 between the Company and Infinity (the "**Transaction**").



3. The principal purpose of the CCAA Proceedings is to allow the Company to implement an orderly wind-down of its operations. The orderly wind-down includes production activities for a period of time to, among other things, permit key customers the opportunity to source alternative supply, and to carry out a process to solicit offers from interested parties to purchase the Company's business and/or assets with a view to maximizing value for all stakeholders.

#### **Purposes of this Report**

4. The purpose of this report (the "**Supplemental Second Report**") is to provide additional information to the Court in connection with the Transaction and address certain of the concerns raised by 2215225 Ontario Inc. ("**2215225**" or the "**Landlord**") in the affidavit of T.J. Tersigni sworn July 30, 2014 (the "**Tersigni Affidavit**"), regarding both the Transaction and the requirement for the Company to vacate the premises located at 104 Oakdale Road, Toronto, Ontario (the "**Premises**") and complete all necessary and required repairs to the Premises, as per its lease obligations, by September 30, 2014.

#### **Terms of Reference**

5. In preparing this Supplemental Second Report, the Monitor has relied on the Company's books and records, and discussions with management, the Company's advisors, Infinity and its advisor and the Landlord and its advisor. The Monitor has not conducted an audit or other verification of such information.
6. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

#### **The Landlord**

7. As noted in the Second Report, the lease for the Premises expired on April 30, 2014 (the "**Lease**"). Prior to the commencement of the CCAA Proceedings, the Company negotiated a lease extension with the former owner of the Premises, which runs until September 30, 2014 (the "**Lease Extension**"). Subsequent to entering into the Lease Extension and after the commencement of the CCAA Proceedings, the Premises were sold to 2215225 on June 2, 2014.
8. As also noted in the Second Report, following completion of the Solicitation Process and the Company's selection of Infinity as the successful bidder, the Company and the Landlord (with the assistance of the Monitor) have been communicating regarding (i) the Company's requirement to vacate the Premises, including the completion of any required repairs and/or remediation activities, by September 30, 2014, (ii) the Landlord's concerns that the Company will not be able to fulfill its

obligations to restore the Premises to an acceptable condition prior to September 30, 2014, and (iii) the possibility of a brief lease extension beyond September 30, 2014.

9. The Landlord and the Company exchanged correspondence dated July 18, 2014 and July 24, 2014, respectively, which correspondence outlined the positions of each of the Landlord and the Company regarding the Company's obligations to repair and restore the Premises in accordance with the terms of the Lease and Lease Extension.
10. As noted in the Second Report, the Company disagreed with many of the repairs and the estimated costs to complete the various repairs that, in the Landlord's view, needed to be completed by the Company prior to it vacating the Premises at the expiration of the Lease Extension.
11. The Landlord's above concerns were reiterated and further detailed in the Tersigni Affidavit which, among other things, outlines the Landlord's opposition to the Court's approval of the Transaction and the LSA (in its current form), and requests that the Court grant a priority charge over the sale proceeds in the amount of \$500,000 in favour of the Landlord, to be held by the Monitor, pending the resolution of the issues between the Landlord and the Company.
12. With respect to the Landlord's concerns raised in the Tersigni Affidavit, the Monitor advises the Court as follows:
  - (i) The Landlord has expressed concerns regarding the proposed timeline for the liquidation of the Assets and the Company's ability to comply with its obligations under the Lease and the Lease Extension. The Landlord also claims that proposed liquidators, and Infinity, share the Landlord's view and Infinity offered the Landlord \$150,000 for a one-month lease extension;
  - (ii) During the Solicitation Process and the negotiation of the LSA, the Monitor had many discussions with Infinity and its advisor regarding the proposed timeline for liquidating the Assets, including the time required to remove the Assets from the Premises and repair/remediate the Premises in accordance with the Company's view as to its obligations under the Lease and Lease Extension;
  - (iii) Although the Company, the Monitor and Infinity acknowledge that additional time to complete the liquidation of the Assets, including the removal of the Assets from the Premises, would be advantageous, Infinity has maintained from the outset of the Solicitation Process that not only will it be able to complete the liquidation and removal of the Assets from the Premises within the required time period, but that it will also work cooperatively with the Company during the

post-auction period so that Infinity can efficiently facilitate the removal of the Assets and the Company can complete its remediation obligations with respect to the Premises prior to vacating the Premises on September 30, 2014;

- (iv) In addition, the Monitor understands that certain of the repairs the Company has agreed to undertake are expected to be completed in August 2014, with other agreed upon repairs to be completed in September 2014;
- (v) The Monitor further understands that, in the Company's view, the only repair/remediation work to be completed following the removal of the Assets from the Premises is the infill of the seven (7) pits located under certain of the Assets (the "Pits"). With respect to the repair/remediation of the Pits, the Monitor has been informed by Infinity that following the liquidation of the Assets it will be undertaking a staged removal of the Assets from the Premises, which will permit the Company to complete those repairs the Company believes it is obligated to complete under the Lease and the Lease Extension, including the repair/remediation of the Pits, by September 30, 2014. In this regard, the Monitor confirms that the Company has obtained a quote for the repair/remediation of the Pits, by the company that installed the Pits, during the period from September 27, 2014 to September 30, 2014;
- (vi) Based on its previous experiences with Infinity and Infinity's reputation in the marketplace, the Monitor is of the view that Infinity has extensive experience and an established team of professionals skilled at the auction/liquidation of industrial machinery and equipment. The Monitor understands that the proposed auction date and timeline for removal of the Assets has been established by Infinity based on its professional experience and with full knowledge of the Company's obligation to complete the liquidation of the Assets, remove the Assets from the Premises and repair/remediate the Premises by September 30, 2014. The Monitor, in other capacities, has previously worked with Infinity and the Monitor can attest that, in those situations, Infinity conducted its work in a professional, well organized manner;
- (vii) Notwithstanding the Landlord's concerns regarding the ability of Infinity to complete the liquidation of the Assets, including the removal of the Assets and the repair/remediation of the Premises, the Monitor notes that in addition to Infinity's offer, four (4) other offers to liquidate the Assets were received from parties that regularly liquidate assets in insolvency proceedings with full knowledge of the Company's obligation to vacate the Premises by September 30, 2014;

- (viii) The Landlord has expressed that, should the LSA be approved (in its current form), the Company will not be able to meet its obligations to the Landlord, as per the Lease and the Lease Extension. In this regard, the Tersigni Affidavit states that the LSA provides that, among other things, Infinity has until September 30, 2014 to remove the Assets from the Premises, and Infinity is permitted to leave certain assets at the Premises;
- (ix) Although the LSA permits Infinity until September 30, 2014 to remove the Assets from the Premises, as noted above, the LSA confirms that Infinity will work cooperatively with the Company during the post-auction period so that Infinity can efficiently facilitate the removal of the Assets from the Premises and the Company can complete its remediation obligations with respect to the Premises. Infinity has advised the Monitor that it will have the Assets removed from the Premises in time for the Company to complete any unfinished repairs/remediation to the Premises prior to September 30, 2014; and
- (x) In addition, although the LSA makes reference to certain assets that are to be excluded from the liquidation sale (the “**Excluded Assets**”), and which Infinity will have no responsibility to remove from the Premises, the Excluded Assets consist of assets that have been sold or are subject to sale to other parties and/or leased assets. The Company has informed the Monitor that arrangements will be made to ensure that the Excluded Assets are removed from the Premises prior to September 30, 2014.

#### **Monitor’s Conclusions and Recommendations**

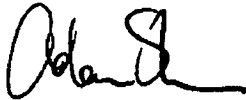
- 13. As noted in the Second Report, the Monitor is of the opinion that the Transaction represents the best recovery from the Assets for the Company's stakeholders in the circumstances.
- 14. Given the Company’s requirement to vacate the Premises by September 30, 2014, the Monitor is of the view that, should the Transaction and LSA not be approved, the Company would not be in a position to further market the Assets for sale without putting the Transaction at risk and impairing recoveries.
- 15. As noted above, although the Company, the Monitor and Infinity agree that additional time would be advantageous, the Company and Infinity appear to have developed a reasonable plan to complete the liquidation of the Assets, remove the Assets from the Premises and complete those repairs to the Premises that the Company believes it is obligated to complete under the Lease and the Lease Extension by September 30, 2014.

16. Based on the foregoing and the Second Report, the Monitor continues to respectfully recommend that this Honourable Court make the Order(s) granting the relief sought by the Company in its motion returnable August 1, 2014, including the approval of the Transaction and the LSA.

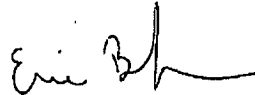
All of which is respectfully submitted this 31<sup>st</sup> day of July, 2014.

**Richter Advisory Group Inc.  
in its capacity as Monitor of  
KK Precision Inc.**

Per:



Adam Sherman, MBA, CIRP



Eric Barbieri, CPA, CA

## **APPENDIX G**



## PHASE I ENVIRONMENTAL SITE ASSESSMENT

LIGHT INDUSTRIAL FACILITY  
104 OAKDALE ROAD  
TORONTO, ONTARIO

Prepared For:  
River Associates Investments, LLC

AUGUST 2011  
REF. NO. 076209 (1)  
This report is printed on recycled paper.

**Prepared by:  
Conestoga-Rovers  
& Associates**

111 Brunel Road, Suite 200  
Mississauga, Ontario  
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TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
1.0 INTRODUCTION.....	1
2.0 ENVIRONMENTAL DATABASES SEARCH AND HISTORICAL RECORDS REVIEW .....	3
2.1 ENVIRONMENTAL DATABASES SEARCH .....	3
2.2 HISTORICAL RECORDS REVIEW .....	7
2.2.1 PROPERTY TITLE RECORDS .....	7
2.2.2 HISTORICAL CITY DIRECTORIES.....	8
2.2.3 FIRE INSURANCE PLANS .....	10
2.2.4 AERIAL PHOTOGRAPHS.....	11
2.2.5 PREVIOUS ENVIRONMENTAL REPORTS.....	12
2.3 GEOLOGICAL AND HYDROGEOLOGICAL SETTING.....	14
3.0 SITE INSPECTION.....	15
3.1 SITE OVERVIEW .....	15
3.1.1 BUILDING AND PROPERTY.....	15
3.1.2 CURRENT SITE OPERATIONS .....	16
3.1.3 HISTORICAL SITE OPERATIONS .....	16
3.1.4 UTILITY SERVICES.....	17
3.2 ENVIRONMENTAL SETTING.....	17
3.3 UNDERGROUND STORAGE TANKS (USTs).....	18
3.4 ABOVEGROUND STORAGE TANKS (ASTs).....	18
3.5 CHEMICAL AND RAW MATERIAL USE AND STORAGE.....	19
3.6 FLOOR DRAINS, PITS, AND SUMPS.....	19
3.7 WASTEWATER/SEWERS .....	20
3.8 STORMWATER/SURFACE WATER.....	20
3.9 SOLID WASTE/RECYCLABLE MATERIALS .....	20
3.10 SUBJECT WASTE/HAZARDOUS WASTE.....	21
3.11 CHEMICAL SPILLS/RELEASES .....	21
3.12 ASBESTOS-CONTAINING MATERIALS (ACM) .....	22
3.13 POLYCHLORINATED BIPHENYLS (PCBs) .....	22
3.14 AIR EMISSIONS .....	22
3.15 LEAD-BASED PAINT .....	23
3.16 IONIZING RADIATION .....	23
3.17 REGULATORY AGENCY RECORDS .....	23
4.0 CONCLUSIONS.....	24



LIST OF FIGURES  
(Following Text)

- FIGURE 1      SITE LOCATION MAP  
FIGURE 2      SITE PLAN

LIST OF APPENDICES

- APPENDIX A      PROJECT PERSONNEL CURRICULUM VITAE  
APPENDIX B      ENVIRONMENTAL DATABASE SEARCH REPORT  
APPENDIX C      PROPERTY TITLE SEARCH DOCUMENTS  
APPENDIX D      RISK MANAGEMENT SERVICES DOCUMENTATION  
APPENDIX E      AERIAL PHOTOGRAPHS  
APPENDIX F      PHOTOGRAPHS OF THE BUILDING AND PROPERTY  
APPENDIX G      AGENCY RECORDS

## EXECUTIVE SUMMARY

Conestoga-Rovers & Associates (CRA) was retained by River Associates Investments, (RAI) to complete a Phase I Environmental Site Assessment (ESA) of the industrial property and building located at 104 Oakdale Road in Toronto, Ontario (Property or Site).

The purpose of the Phase I ESA was to identify, through a non-intrusive investigation, the existence of any significant actual or potential areas of environmental impairment associated with the facility and related Property. It is CRA's understanding that the Phase I ESA is being completed for due diligence purposes to allow RAI to assess any potential liabilities (environmental risk and impacts) relating to the Property preparatory to a potential real estate transaction. The Property is currently owned by Precinda Inc. who acquired the Property in 1998.

The Property is approximately 0.73 hectares (1.8 acres) in size and irregular in shape. The Site contains one building that is approximately 2,600 square metres (28,000 square feet) in size. The Site is located in an area of Toronto that has been developed for industrial land use since the 1960s.

The Phase I ESA was conducted in general accordance with the document entitled, "CSA Standard Z768-01, Phase I Environmental Site Assessment" for conducting environmental assessments.

Based on the results of the Phase I ESA, including information provided by facility representatives and regulatory agencies, and historical documents reviewed, the following potential areas of environmental concerns were identified to be associated with the Site.

- i) **Current Site Operations:** Based on the findings of the Site inspection, two shallow concrete pits, which extend from the north end to the south end of the manufacturing plant, were present below the base of the metal working machines. These concrete pits are used for collecting leaked coolant and hydraulic oil from the machines. Localized stains were observed throughout the facility, especially on the concrete floor slab in the northeast section of the plant and the exterior northeast section of the Site where drums and plastic totes containing hydraulic oil, coolant, and mineral spirits, or liquid wastes from the non-destructive testing area were stored. The potential for chemicals to seep into the surrounding soil through cracks in the walls or bases of the concrete pits, and

from spills or leaks associated with the chemical storage areas were identified as potential sources of environmental impairment to the Site.

- ii) **Historical Site Operations:** Based on a review of historical information, former occupants of the Site included heavy-duty lift truck repair and machine shop operations. Very limited information was available concerning the types and quantities of chemicals used and stored at the Site in the past, or the nature of wastes generated at the Site in the past. In the absence of this information, these historical operations were identified as potential sources of environmental impairment to the Site.
  
- iii) **Historic Adjacent Land Use:** Based on a review of historical information, the properties adjacent to the north and east of the Site were occupied by industrial operations including metal working, stamping, and automotive repair operations. Fill and vent pipes associated with a possible underground storage tank had also been observed on a property located approximately 30 metres northeast of the Site. The historical industrial operations on properties located adjacent to the Site were identified as potential sources of environmental impairment to the Site, if chemical releases have occurred on these properties and migrated onto the Site.

## 1.0 INTRODUCTION

Conestoga-Rovers & Associates (CRA) was retained by River Associates Investments, LLC (RAI) to complete a Phase I Environmental Site Assessment (ESA) of the industrial property located at 104 Oakdale Road, Toronto, Ontario (Property or Site). A Site location map is provided on Figure 1 and a Site plan is provided on Figure 2.

The purpose of the Phase I ESA was to identify, through a non-intrusive investigation, the existence of any significant actual or potential areas of environmental impairment associated with the facility and related Property. It is CRA's understanding that the Phase I ESA is being completed for due diligence purposes to allow RAI to assess any potential liabilities (environmental risk and impacts) relating to the Property preparatory to a potential real estate transaction. The Property is currently owned by Precinda Inc. who acquired the Property in 1998.

The Property is approximately 0.73 hectares (1.8 acres) in size and irregular in shape. The Site contains one building that is approximately 2,600 square metres (28,000 square feet) in size. The Site is located in an area of Toronto that has been developed for industrial land use since the 1960s.

The Phase I ESA was conducted in general accordance with the document entitled, "CSA Standard Z768-01, Phase I Environmental Site Assessment" for conducting environmental assessments. The Phase I ESA was conducted by Mr. Cory Ostrowka and Ms. Pearl Lai and was reviewed by Mr. Greg Brooks, all of CRA. The qualifications of Mr. Ostrowka, Ms. Lai and Mr. Brooks are presented in Appendix A. The following tasks were conducted as part of the Phase I ESA:

- Review of an electronic environmental database search of federal, provincial, and private source databases
- Review of Property title records
- Review of available historical records including historical city directories, fire insurance plans, aerial photographs of the Site and surrounding area, and previous environmental reports
- Review of past and current Property usage and adjacent property occupancy
- Inspection of the facilities, equipment, utility services, operations, and associated records for the Site
- Observations of any conditions that represented potential environmental concerns
- Review of chemical use and storage and spill/release incidents

- Review of aboveground and underground storage tank records
- Review of waste handling, accumulation, storage, and disposal practices
- Review of air emissions and wastewater discharges
- Review of equipment that potentially contains chlorofluorocarbons
- Review of equipment that potentially contains polychlorinated biphenyls
- Observations of potential lead-based paint
- Observations of potential asbestos-containing materials
- Inquiries with regulatory agencies and discussions with persons knowledgeable of the Site and Site operations

CRA relied on information received from all parties as being accurate unless contradicted by written documentation or field observations.

The following report summarizes the information gathered by CRA during the Phase I ESA and identifies any significant actual or potential areas of environmental impairment associated with the facility and related Property.

This Phase I ESA report has been prepared for the use of River Associates Investments, LLC and may not be relied upon by others without the written consent of CRA.

2.0 ENVIRONMENTAL DATABASES SEARCH AND HISTORICAL RECORDS REVIEW

2.1 ENVIRONMENTAL DATABASES SEARCH

CRA contracted EcoLog Environmental Risk Information Services Ltd. (ERIS) to conduct a search of available federal, provincial, and private environmental databases. Based on the address of the Site, the database searches were completed to assist in the identification of environmental conditions at the Site and on adjacent properties. A summary of the pertinent findings from the database search is provided below. The number of records identified for the Site and for properties within a 0.25 kilometre radius, and a 0.25 to 2 kilometre radius of the Site are identified in the following table. The complete database search report, which also identifies limitations associated with this information, is included in Appendix B.

Database	Number of Records		
	Site	Distance from the Site	
		0-0.25 km	0.25-2 km
<b>FEDERAL DATABASES</b>			
Environmental Effects Monitoring (EEM)	None	0	0
Environmental Issues Inventory System (EIIS)	None	0	0
Federal Convictions (FCON)	None	0	0
Federal Contaminated Sites (FCS)	None	0	0
Fisheries & Oceans Fuel Tanks (FOFT)	None	0	0
Indian & Northern Affairs Fuel Tanks (IAFT)	None	0	0
National Analysis of Trends in Emergencies System (NATE)	None	0	0
National Defence & Canadian Forces Fuel Tanks (NDFT)	None	0	0
National Defence & Canadian Forces Spills (NDSP)	None	0	0
National Defence & Canadian Forces Waste Disposal Sites (NDWD)	None	0	0
National Environmental Emergencies System (NEES)	None	0	0
National PCB Inventory (NPCB)	None	0	27
National Pollutant Release Inventory (NPRI)	None	0	148
Parks Canada Fuel Storage Tanks (PCFT)	None	0	0
Transport Canada Fuel Storage Tanks (TCFT)	None	0	0
<b>PROVINCIAL DATABASES</b>			
Abandoned Aggregate Inventory (AAGR)	None	0	0
Aggregate Inventory (AGR)	None	0	0
Abandoned Mines Information System (AMIS)	None	0	0
Borehole (BORE)	None	17	408
There were no records identified in the BORE database to be associated with the Site. Seventeen records were identified in the BORE database to be associated with properties located within 250 metres of the Site. All records were associated with geotechnical/geological			

Database	Number of Records		
	Site	Distance from the Site	
		0-0.25 km	0.25-2 km
investigations.			
Certificates of Approval (CA)	None	5	137
<p>There were no records identified in the CA database to be associated with the Site. Five records were identified in the CA database to be associated with properties located within 250 metres of the Site. The records were associated with Certificates of Approval for Industrial Air, Air, and Waste Management Systems between the years 1994 and 2011. The approval for Waste Management Systems was for Quartz Disposal Inc. at 123B Oakdale Road, located approximately 100 metres northeast of the Site.</p>			
Coal Gasification Plants (COAL)	None	0	0
Compliance and Convictions (CONV)	None	0	0
Drill Holes (DRL)	None	0	0
Environmental Registry (EBR)	None	2	56
<p>There were no records identified in the EBR database to be associated with the Site. Two records were identified in the EBR database to be associated with properties located within 250 metres of the Site. Both records were associated with Certificates of Approval (Air).</p>			
Ontario Regulation 347 Waste Generators Summary (GEN)	3	36	643
<p>Three records were identified in the GEN database to be associated with the Site. KK Precision Parts Ltd. was identified as a generator of waste oils/sludges (petroleum based) and emulsified oils for various years between 1997 and 2010. Precinda Ltd. was identified as a generator of emulsified oils in 2005.</p> <p>A total of thirty-six records for eleven addresses were identified in the GEN database to be associated with properties located within 250 metres of the Site.</p> <ul style="list-style-type: none"> <li>• Hopkins Street Properties Ltd., located at 101 Oakdale Road (approximately 30 metres east of the Site), was identified as a generator of oil skimming and sludges, and organic laboratory chemicals in 2007 and 2008.</li> <li>• Apollo Circuits Ltd., located at 109 Oakdale Road (approximately 30 metres east of the Site), was identified as a generator of acid, alkaline, and neutralized wastes containing heavy metals, inorganic laboratory chemicals, halogenated solvents, and organic laboratory chemicals for various years between 1997 and 2010.</li> <li>• Oakdale Kitchens Ltd., located at 92 Oakdale Road on the adjacent property to the south of the Site, was identified as a generator of aromatic solvents, and paint/pigment/coating residues for various years between 1993 and 2004.</li> <li>• Superior Wire Works Inc., located at 112 Oakdale Road on the adjacent property to the north of the Site, was identified as a generator of waste oils/sludge (petroleum based), other inorganic acid wastes, alkaline wastes containing heavy metals, alkaline wastes containing other metals, neutralized wastes containing heavy metals, reactive anion wastes, inorganic laboratory chemicals, petroleum distillates, polymeric resins, halogenated solvents, oil skimmings and sludges, waste oils and lubricants, and organic laboratory chemicals for various years between 1986 and 2010.</li> <li>• Bevel Stamping Co. Ltd., located at 111 Oakdale Road (approximately 30 metres northeast of the Site), was identified as a generator of petroleum distillates, aliphatic solvents, and halogenated solvents for various years between 1992 and 2010.</li> <li>• Tarpan Sections Ltd., located at 117 Oakdale Road (approximately 70 metres northeast of the Site), was identified as a generator of aromatic solvents and halogenated solvents for various years between 1986 and 2004.</li> </ul>			

Database	Number of Records		
	Site	Distance from the Site	
		0-0.25 km	0.25-2 km
<ul style="list-style-type: none"> <li>• Kobi's Cabinets Ltd., I Kobialka, and Rexdale Alternator &amp; Starter, all located at 120 Oakdale Road (approximately 70 metres north of the Site), were identified as generators of aromatic solvents, emulsified oils, petroleum distillates, and waste oils and lubricants for various years between 1992 and 2006.</li> <li>• KK Precision Parts Ltd., located at 119 Oakdale Road (approximately 80 metres northeast of the Site), was identified as a generator of emulsified oils for various years between 1986 and 1998.</li> <li>• Ajax Screw Machined Products Inc., located at 123 Oakdale Road (approximately 110 metres northeast of the Site), was identified as a generator of petroleum distillates, halogenated solvents, and emulsified oils for various years between 1986 and 1998.</li> <li>• Angelo's Electric Limited, located at 125 Oakdale Road (approximately 110 metres northeast of the Site), was identified as a generator of petroleum distillates, waste oils and lubricants, and emulsified oils for various years between 1992 and 2010.</li> <li>• Eriez of Canada Ltd., located at 133 Oakdale Road (approximately 200 metres north of the Site), was identified as a generator of other inorganic acid wastes, paint/pigment/coating residues, aromatic solvents, aliphatic solvents, petroleum distillates, polymeric resins, oil skimmings and sludges, waste oils and lubricants, emulsified oils, and amines for various years between 1986 and 1998.</li> </ul>			
Mineral Occurrences (MNR)	None	0	0
Non-Compliance Reports (NCPL)	None	0	5
Ontario Inventory of PCB Storage Sites (OPCB)	None	0	10
Ontario Oil and Gas Wells (OOGW)	None	0	0
Pesticide Register (PES)	None	0	39
Private and Retail Fuel Storage Tanks (PRT)	None	1	53
No records were identified in the PRT database to be associated with the Site. One record was identified in the PRT database to be associated with a property located within 250 metres of the Site. The record was associated with a 2,000 litre tank at 84 Oakdale Road (approximately 90 metres south of the Site). This property was occupied by Capri Bakery. No further information about this tank was provided in the PRT database.			
Ontario Regulation 347 Waste Receivers Summary (REC)	None	0	8
Record of Site Condition (RSC)	None	0	21
Ontario Spills (SPL)	None	0	192
Wastewater Discharger Registration Database (SRDS)	None	0	0
Waste Disposal Sites – MOE CA Inventory (WDS)	None	0	1
Waste Disposal Sites – MOE 1991 Historical Approval Inventory (WDSH)	None	0	0
Water Well Information System (WWIS)	None	0	79
<b>PRIVATE DATABASES</b>			
Anderson's Waste Disposal Inventory (ANDR)	None	0	1
Automobile Wrecking & Supplies (AUWR)	None	1	11
No records were identified in the AUWR database to be associated with the Site. One record was identified in the AUWR database to be associated with a property located within 250 metres of the Site. The record was associated with an automobile wrecking and recycling facility located at 128 Oakdale Road (approximately 130 metres north of the Site).			
Chemical Register (CHEM)	None	0	4



Database	Number of Records		
	Site	Distance from the Site	
		0-0.25 km	0.25-2 km
ERIS Historical Searches (EHS)	None	6	108
Fuel Storage Tank (FST)	None	0	122
Canadian Mine Locations (MINE)	None	0	0
Oil and Gas Wells (OGW)	None	0	0
Canadian Pulp and Paper (PAP)	None	0	0
Retail Fuel Storage Tanks (RST)	None	0	14
Scott's Manufacturing Directory (SCT)	2	25	429
<p>Two records were identified in the SCT database to be associated with the Site. The records were associated with machine shop, coating, engraving, and allied services, industrial and commercial machinery and equipment, guided missile and space vehicle parts, and auxiliary equipment operations that were carried out by K.K. Precision Industries Inc.</p> <p>Twenty-five records were identified in the SCT database to be associated with properties within 250 metres of the Site. The records were generally associated with coating, engraving, heating treating and allied activities, metal working, and the manufacturing of carpet, clothing, furniture, semiconductor and other electronic component, cabinet and counter top, metal and wire fixtures, cutlery and hand tools, windows and doors, medical equipment and supplies, food, and plastic products.</p>			
Anderson's Storage Tanks (TANK)	None	0	0
Commercial Fuel Oil Tanks (CFOT)	None	0	7

Based on the results of the ERIS database search, the Site was historically used as a machine shop, and for operations associated with coating, engraving, and allied services, and industrial and commercial machinery and equipment manufacturing. K.K. Precision Industries Inc. and Precinda Ltd., which carried out these operations, were identified as generators of waste oils/sludges (petroleum based) and emulsified oils for various years between 1997 and 2010. These historical operations were identified as a potential environmental concern at the Site.

Based on the results of the ERIS database search, the properties adjacent to the north, east, and south of the Site were historically used for industrial operations associated with metal working, stamping, automotive repair operations, and manufacturing of cabinets and countertops. Superior Wire Works Inc., located at 112 Oakdale Road on the north adjacent property, was identified as a generator of waste oils/sludge (petroleum based), other inorganic acid wastes, alkaline wastes containing heavy metals, alkaline wastes containing other metals, neutralized wastes containing heavy metals, reactive anion wastes, inorganic laboratory chemicals, petroleum distillates, polymeric resins, halogenated solvents, oil skimmings and sludges, waste oils and lubricants, and organic laboratory chemicals for various years between 1986 and 2010. Apollo Circuits Ltd., located at 109 Oakdale Road (approximately 30 metres east of the Site), was identified as a generator of acid, alkaline, and neutralized wastes containing heavy metals, inorganic

laboratory chemicals, halogenated solvents, and organic laboratory chemicals for various years between 1997 and 2010. Bevel Stamping Co. Ltd., located at 111 Oakdale Road (approximately 30 metres northeast of the Site), was identified as a generator of petroleum distillates, aliphatic solvents, and halogenated solvents for various years between 1992 and 2010. Oakdale Kitchens Ltd., located at 92 Oakdale Road on the south adjacent property, was identified as a generator of aromatic solvents, and paint/pigment/coating residues for various years between 1993 and 2004.

No specific information was provided regarding the storage and handling of liquid and hazardous wastes on the surrounding properties. Specifically, no information concerning the quantities of chemicals historically used, or the ultimate disposition location for waste generated, was identified. On this basis, operations conducted on adjacent properties were identified as a potential source of environmental impairment to the Site.

## 2.2 HISTORICAL RECORDS REVIEW

Historical land use of the Site was investigated by CRA through a review of Property title records, historical city directories, available fire insurance plans, aerial photographs of the Site and surrounding area, and previous environmental reports.

### 2.2.1 PROPERTY TITLE RECORDS

CRA contracted Meridian Land and Title Searching Services to conduct a search of Property title records and other documents (lease agreements, easements, environmental liens, etc.) associated with the ownership or occupation of the Site. Based on records provided to CRA, the Site is legally described as: *Lots 125 and 126 on Plan M-770, City of Toronto.*

The chain-of-title for the Property, as identified from the Property title search, is as follows:

<i>Registered Owner</i>	<i>Ownership Period</i>
George Jackson	Prior to 1891
Eliza Duncan (50%) and James Duncan (50%) (estate of George Jackson)	1891 – January 1910
Harriet A. Peters	January 1910 – September 1925
James R. Lancaster	September 1925 – 1928
Anna Maria MacLeod Whelan	1928 – May 1945

Samuel L. Stanley	May 1945 – August 1948
Alice N. and Neil C. Glaves	August 1948 – unknown date
Charles M. DeGroot	unknown date - May 1951
James Elliott	May 1951 – September 1952
James W. Rowland (estate of James Elliott)	September 1952 – October 1952
Matthew A. Leitch	October 1952 – March 1956
Murray Cohl	March 1956 – September 1963
Harry Frimerman	September 1963
Ofelea Realty Ltd. and Paula Realty Ltd. (Lot 125)	September 1963 – November 1964
Bruce William Johnston (Lot 126)	September 1963 – November 1964
Maple Machine & Tool Co. Limited	November 1964 – July 1998
Precisiontek Industries Limited	July 1998 - Present
(name change to Precinda Inc. in 2004)	

The following leases were registered on title at the Property:

<i>Registered Lease(s)</i>	<i>Date of Lease</i>
Coolbreeze Air Conditioning & Heating Limited	December 1985
K.K. Precision Industries Inc.	September 1996

A copy of the Property title search documents that were obtained as part of the Phase I ESA is provided in Appendix C.

### 2.2.2 HISTORICAL CITY DIRECTORIES

Historical city directories generally document the occupants of municipal addresses on a yearly basis. CRA reviewed historical city directories at the Toronto Reference Library for the years 1961, 1971, 1981/1982, 1985/1986, 1991, and 2001. The Site was first listed in the 1966 city directory.

<i>Year</i>	<i>Listed Site Occupant (s)</i>
1966 – 1975	Maple Machine Tool Co. Ltd.
1976 – 1981	Eaton Yale Ltd.
1983	Yale Industrial Trucks (Ontario) Ltd.
1985/1986 – 1989	Cool-Breeze Air Conditioning & Heating Ltd.
1991 – 1995	Air Heat Supplies
1998 – 2001	K.K. Precision Industries Inc.

CRA also reviewed historical city directories for the properties in the area of the Site. A summary of surrounding occupants is summarized below.

<i>Address</i>	<i>Listed Occupant (s)</i>
112 Oakdale Road (north of the Site)	-AD Art Design Depot, AK Towing Car Sales, Homa Technical Services Inc., Sat-tronix Satellite Repair Centre, and Superior Wire Works were listed in 2001 -Superior Wire Works was listed in 1981/1982 and 1991
120 Oakdale Road (north of the Site)	-Kobi's Cabinets Ltd. and Rexdale Alternator & Starter Rebuilders were listed in 2001 -Promotional Designs Ltd. and Kobi's Cabinets Ltd. were listed in 1991 -Canadian Indexable Cutting Tools Ltd., Kobi's Cabinets Ltd., and Yugodex Tool Co. were listed in 1981/1982 -Kobi's Cabinets Ltd. and Rivalda Machine Products Ltd. were listed in 1971
101 Oakdale Road (east of the Site)	-A multi-tenant industrial/commercial building including A&A Custom Cabinet, ALM Carpet Machinery, Best West Car Audio, D&D Towtruck Builder, Expert Metal & Brass Polishing, Manierka Peter & Co. Ltd., Super Deal Body Shop Painting Sales & Service, and Union Pro Sportswear, was listed in 2001 -A multi-tenant industrial/commercial building including Metro Community Social Services, Monique Lighting Co., Northwest Manufacturing, and Post Trite Systems Ltd., was listed in 1991 -A multi-tenant industrial/commercial building including Instech Corp. Northwest Manufacturing Co., Bloomingdale Apparel Co. Ltd., Cansotech International Inc., Postrite Systems Ltd., and The Funny Bone, was listed in 1981/1982 -A multi-tenant industrial/commercial building including One-O-One Restr Ltd., Oakdale Restr, Bach-Simpson Ltd., Qualified Sheet Metal, Raber Imports, Neusser E. K. Machine Co. Ltd., and Power Regulators Co. of Canada, was listed in 1971

<i>Address</i>	<i>Listed Occupant (s)</i>
109 Oakdale Road (east of the Site)	-Apollo Circuits Ltd. was listed in 2001 -Asco Manufacturing Ltd. was listed in 1991 -Asco Manufacturing Ltd. and Blue Wing Industries were listed in 1981/1982 -Asco Manufacturing Co. Ltd. and Orli Metal Products Ltd. were listed in 1971
111 Oakdale Road (northeast of the Site)	-Bevel Stamping Co. Ltd. was listed in 1971, 1981/1982, 1991, and 2001
115 Oakdale Road (northeast of the Site)	-Bevel Stamping Co. Ltd. was listed 2001 -Residential Siding & Soffit Inc. was listed in 1981/1982 and 1991 -Elm Woodwork Ltd. was listed in 1971
119-121 Oakdale Road (northeast of the Site)	-J Senior's was listed in 2001 -K.K. Precision Parts Ltd. was listed in 1991 -Keele Electric Ltd. and D'Amato Rentals Ltd. were listed in 1981/1982 -Trailwind Products (trailer aluminum windows) was listed in 1971
90 Oakdale Road (south of the Site)	-Not listed in 2001 -V&D Window International Co. was listed in 1991 -Multitone Electronics Ltd. was listed in 1981/1982 -Hercules Food Equipment Ltd. and Canadian Indexable Cutting Tools Ltd. were listed in 1971
92 Oakdale Road (south of the Site)	-Oakdale Kitchens Ltd. was listed in 1991 and 2001 -Berloni Kitchens International Inc. and Spectrum Auto Repair Services were listed in 1981/1982 -Gold Star Sales Ltd. (trading stamps) was listed in 1971

There were no listings for the surrounding properties prior to the early 1960s.

### 2.2.3 FIRE INSURANCE PLANS

Fire insurance plans assist in the identification of historic land use and commonly indicate the existence and location of aboveground and underground storage tanks, structures, improvements, and facility operations. CRA contacted Risk Management Services (RMS) to search for available historic fire insurance plans for the Site and

adjacent lands. RMS did not identify any fire insurance plans for the Site. An Inspection Report from 1983 and an Inspection Plan from 1982 were identified for the Site.

**1982 Inspection Plan:** The 1982 Inspection Plan shows the layout of the building at the Site that consisted of a repair shop in the east portion of the building, a parts storage area at the southwest portion of the building, offices in the west central portion of the building, and storage in the northwest portion of the building. The Site was owned by Maple Machine & Tool at that time.

**1983 Inspection Report:** The 1983 Inspection Report indicated that the Site was occupied at the time by Yale Industrial Trucks Ontario Limited, which utilized the Site for the service and repair of heavy duty industrial lift trucks. The Inspection Report notes that routine maintenance involving oxy-acetylene welding, and spray painting were done at the facility. Small quantities of paints and solvents were kept in a standard flammables liquids metal cabinet. The Site building was noted as being constructed in the 1950s and was heated with natural gas fired suspended radiant unit heaters. The Inspection Report also notes that the transformers at the Site were not PCB-filled.

A copy of the documentation received from RMS is included in Appendix D.

#### 2.2.4 AERIAL PHOTOGRAPHS

Aerial photographs were reviewed to generally document the development of the Site and properties in the vicinity of the Site and to identify the existence of any significant actual or potential areas of environmental impairment at the Site. Aerial photographs or satellite images of the Site and surrounding area were obtained by CRA for the years 1939, 1949, 1960, 1970, 1980, 1988, and 1999.

**1939 Aerial Photograph (Scale 1:20,000):** Review of the 1939 aerial photograph indicates that the Site and surrounding lands consisted primarily of agricultural land.

**1949 Aerial Photograph (Scale 1:20,000):** Review of the 1949 aerial photograph indicates that the Site remained as agricultural land. Highway 400, located adjacent to the west side of the Site appeared to have been under construction during that time. There had been no other significant changes in land use on the surrounding properties since 1939.

1960 Aerial Photograph (Scale 1:25,000): Review of the 1960 aerial photograph indicates that the Site remained undeveloped. Oakdale Road was present adjacent to the east side of the Site. Properties to the northeast of the Site, on the opposite side of Oakdale Road appear to have been developed for industrial use since 1949. Properties further east of the Site had been developed for residential purposes. There had been no other significant changes in land use on the surrounding properties since 1949.

1970 Aerial Photograph (Scale 1:25,000): Review of the 1970 aerial photograph indicates that the Site had been developed for industrial use since 1960. The properties to the north, east, and south of the Site had also been developed for industrial use since 1960. The properties further west of the site, on the opposite side of Highway 400, appear to have been developed for industrial purposes. There had been no other significant changes in land use of the surrounding properties since 1960.

1980 Aerial Photograph (Scale 1:25,000): Review of the 1980 aerial photograph indicates that a large addition had been constructed on the east side of the building adjacent to the north of the Site. The land use of the Site and the other surrounding properties remain unchanged since 1970.

1988 Aerial Photograph (Scale 1:25,000): Review of the 1988 aerial photograph indicates that the land use of the Site and the surrounding properties remain unchanged since 1980.

1999 Aerial Photograph (Scale 1:6,000): Review of the 1999 aerial photograph indicates that the land use of the Site and the surrounding properties remain unchanged since 1988.

Copies of the aerial photographs are included in Appendix E.

#### 2.2.5 PREVIOUS ENVIRONMENTAL REPORTS

CRA reviewed the following environmental report prepared for the Site:

- Phase I Environmental Site Assessment, 104 Oakdale Road, Toronto, Ontario, prepared for Precinda Inc., prepared by AiMS Environmental, dated August 9, 2007

### Phase I Environmental Site Assessment – 2007

In 2007, AiMS Environmental (AiMS) was retained by Precinda Inc. to conduct a Phase I ESA of the property located at 104 Oakdale Road in Toronto, Ontario. AiMS made the following conclusions in the Phase I ESA:

- The Site was occupied by K.K. Precision as a manufacturing facility of gas turbine components.
- Historical information reviewed by AiMS in the city directories indicated that the Site was formerly occupied as a machine shop and a manufacturing facility for air conditioning and heating equipment.
- Large amounts of pooled waste oil, coolants, and lubricants were observed in below grade, concrete collection trenches associated with metal fabricating machines.
- Pooled waste solution was observed in the central portion of the prototype testing area (known as the Non-Destructive Test area). This area was equipped with a drying oven, a fume hood, and a parts washer containing a large quantity of water-based florescent solution that was reportedly used in testing operations.
- The northeastern portion of the manufacturing plant, which was used for the storage of parts and supplies, housed a portable silo AST containing hydraulic oil, a 1000-L storage tote containing lubricating oil, and a number of 205-L drums of new oils, lubricants, and greases used for servicing on-Site equipment.
- Localized staining was observed throughout the facility, particularly in the vicinity of the metal fabricating machinery and AST, as well as in the vicinity of totes and drums stored both outdoors and within the manufacturing facility.
- A groundwater monitoring well was observed on the asphalt pavement of the adjacent property to the north of the Site, approximately 1 metre from the north property boundary of the Site.
- Fill and vent pipes, typically indicating the presence of an underground storage tank, were observed on a property located approximately 30 metres northeast of the Site.



### 2.3 GEOLOGICAL AND HYDROGEOLOGICAL SETTING

The Site is located in the broad physiographic region known as the Peel Plain. This region extends across the central portions of the Regional Municipalities of York, Peel, and Halton and consists of a level-to-undulating tract of clay soils<sup>1</sup>.

The Site is relatively flat with a gentle slope to the south. Regional topography slopes steadily downward to the southwest. The Site is situated approximately 1.4 kilometres northeast of the Humber River. The elevation of the Site is approximately 150 metres above mean sea level (amsl)<sup>2</sup>.

A review of quaternary geology for the Site indicates that the overburden in the vicinity of the Site consists of deeper-water Peel ponds deposits that are comprised of silt and clay<sup>3</sup>.

Based on the topography of the area, the regional groundwater flow direction is suspected to be predominantly southwest towards the Humber River. Shallow groundwater flow direction, can be influenced by the presence of underground utility lines or other underground structures. Potable water for the City of Toronto is obtained from Lake Ontario.

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<sup>1</sup> Chapman, L.J., and D.F., Putnam (1984), *"The Physiography of Southern Ontario"*, Ontario Geological Survey.

<sup>2</sup> National Topographic Database (2010), [www.atlas.nrcan.gc.ca](http://www.atlas.nrcan.gc.ca).

<sup>3</sup> Ontario Geological Survey (1980), Map P. 2204, *Quaternary Geology, Toronto and Surrounding Area*, Scale 1:100,000.

### 3.0 SITE INSPECTION

On August 2, 2011, Mr. Cory Ostrowka and Ms. Pearl Lai of CRA completed a Site inspection of the industrial building and Property located at 104 Oakdale Road in Toronto, Ontario. As part of the Phase I ESA, CRA interviewed the following personnel:

<i>Facility Contact</i>	<i>Position</i>	<i>Years Familiar With The Facility</i>
Mr. Andrew Lee	Chief Financial Officer	2006 - Present

Mr. Lee provided information concerning the past and current use of the Site. Mr. Lee accompanied Mr. Ostrowka and Ms. Lai of CRA during the Site inspection. CRA did not have access to the roof of the building during the Site inspection. Photographs of the building and Property are included in Appendix F.

### 3.1 SITE OVERVIEW

#### 3.1.1 BUILDING AND PROPERTY

The Site is located at 104 Oakdale Road in an industrial area of Toronto, Ontario. The Site is approximately 0.73 hectares (1.8 acres) in size, irregular in shape, and located in the northwest portion of Toronto on the east side of Highway 400.

The Site contains one building occupied by K.K. Precision Inc. The building is irregular in shape and has a total area of approximately 2,600 square metres (28,000 square feet) that includes a manufacturing plant area in the majority of the building and an office section at the southwest portion of the building. Based on available information, the building was constructed in the 1960s. The building is constructed with structural steel and exterior concrete block, brick-faced walls, a concrete slab-on-grade floor, and a flat steel roof. The northeast and southeast sections of the plant area include one floor level overhead door and one dock level overhead door. The office area includes ceramic and vinyl tiled areas with drywall formed and removable plastic paneled walls, and ceiling tiles.

The exterior surfaces surrounding the building are primarily asphalt covered. The Site can be accessed from the east via asphalt driveways that extend from the northeastern and southeastern corners of the Site to Oakdale Road. The Property is relatively flat with the ground surface sloped gently towards the south Property boundary.

### 3.1.2 CURRENT SITE OPERATIONS

The Site has been occupied by K.K. Precision Inc. since 1996 for the manufacturing of gas turbine components. Unfinished components are shipped to the facility and are processed with a series of lathes and milling machines located in the plant. The components are transferred between the machines by several ¼-ton overhead cranes. Two battery powered forklifts are used to transfer parts and other materials such as waste metal grindings, and drums of oils, solvent, and cutting fluids throughout the building.

A non-destructive testing (NDT) area is located in the northwest portion of the building. In the NDT area, a water-based fluorescent chemical (Ardrox 970P25E) is applied onto the surface of the turbine components and examined under ultraviolet light to inspect for deficiencies.

An assembly area is located to the south of the NDT area and a quality inspection and engineering area is located in the southwest section of the building.

### 3.1.3 HISTORICAL SITE OPERATIONS

The Site was first developed for industrial use in the 1960s. Based on available information, the Site was occupied by Maple Machine Tool Co. Ltd. as a machine shop from the time the building was constructed until 1975. From 1976 to at least 1983, Eaton Yale Ltd. (named changed later to Yale Industrial Trucks (Ontario) Ltd.) occupied the Site as a repair shop for heavy duty industrial lift trucks. Routine maintenance operations by Eaton Yale Ltd. included spray painting which was done in a sprinklered spray booth. Small quantities of paints and solvents (approximately 45.5 litres or 10 gallons) were kept in a standard flammable liquids metal cabinet. The Site was later occupied by Cool Breeze Air Conditioning & Heating Ltd. from 1985 to at least 1989 and Air Heat Supplies from 1991 to at least 1995 as a distribution warehouse for air conditioning and heating equipment. No specific information concerning the operations conducted at the Site by Maple Machine Tool Co. Ltd., Eaton Yale Ltd., Yale Industrial Trucks (Ontario) Ltd., Cool Breeze Air Conditioning & Heating Ltd., or Air Heat Supplies (such as how wastes were disposed of) was obtained during the Phase I ESA.

### 3.1.4 UTILITY SERVICES

Electricity is supplied overhead to the Site by Toronto Hydro. The Site is serviced with natural gas by Enbridge Gas Distribution Inc. The manufacturing plant is heated by natural gas-fired ceiling mounted unit heaters. The office area is heated and cooled by roof mounted HVAC units.

The Site is serviced with municipal potable water services supplied by the City of Toronto. Mr. Lee was not aware of any potable water wells at the Site. At the time of the Site inspection, there was no visual evidence suggesting that a water well was located at the Site. A groundwater monitoring well was observed on the north adjacent property, approximately 1 metre from the northern Property boundary.

Mr. Lee stated that domestic wastewater from the washrooms and lunchroom areas in the office portion of the building discharge to the municipal sanitary sewer system operated by the City of Toronto. Mr. Lee was not aware of a septic system at the Site. At the time of the Site inspection, there was no visual evidence suggesting that a septic system was located at the Site.

Stormwater generated on the Site either infiltrates the ground surface, or flows overland to the south towards storm sewers located in the asphalt covered areas in the southern portion of the Site or onto Oakdale Road. The stormsewers are connected to the municipal stormwater system operated by the City of Toronto.

### 3.2 ENVIRONMENTAL SETTING

The Site is located in an area of Toronto that has been developed for industrial land use since the 1960s. There are no surface water bodies or watercourses located on the Property. The Site is situated approximately 1.4 kilometres northeast of the Humber River.

The properties adjacent to the Site were visually inspected, without accessing the properties, for evidence of existing or potential environmental concerns related to the Phase I ESA. CRA also visually inspected other properties in the vicinity of the Site that were visible from the Site or surrounding streets. The following buildings or features were located on the properties surrounding the Site:

*North:* The Site is bounded to the north by industrial operations located on Oakdale Road that include Superior Wire Works and Selyan's Flooring.

Additional commercial and industrial properties are located further to the north.

*West:* The Site is bounded to the west by Highway 400. Additional industrial properties are located further to the west.

*South:* The Site is bounded to the south by an industrial operation located on Oakdale Road named Oakdale Kitchens. Additional industrial properties are located further to the south.

*East:* The Site is bounded to the east by Oakdale Road, an industrial operation named Bevel Stamping Co. Ltd, and a multi-tenant industrial building including Union Pro Sportswear, ALM Carpet Machinery, R&T Custom Cabinets, ACE Woodcraft, Ricky D Auto Electronics, and D&D Tow Truck Equipment. Single family dwellings are present further to the east.

Facility personnel were not aware of any environmental impacts to the Site attributable to operations conducted on adjacent lands. No visual evidence of any adverse environmental impact to the Site attributable to operations conducted on adjacent properties was observed by CRA during the Site inspection.

### 3.3 UNDERGROUND STORAGE TANKS (USTs)

Mr. Lee stated that there have never been any USTs located at the Site to the best of his knowledge. At the time of the Site inspection, no physical evidence (e.g., vent pipes, fill pipes, etc.) suggesting the presence of USTs at the Site was observed by CRA.

### 3.4 ABOVEGROUND STORAGE TANKS (ASTs)

A vertical steel AST with an approximate volume of 1,000 litres of new hydraulic oil was observed near the overhead door at the northeast portion of the manufacturing plant. At the time of the Site inspection, no visible or olfactory evidence of leakage from the tank was observed. The concrete floor slab in the vicinity of the AST appeared to be intact (i.e. free of cracks).

### 3.5 CHEMICAL AND RAW MATERIAL USE AND STORAGE

Four metal drums containing coolant (Cimstar 60C), rust inhibitor (Rust Veto 4214-HF, mineral spirits, and lubricant were stored on a dispensing rack near the overhead door at the northeast portion of the manufacturing plant. Small pools of chemicals were observed in the vicinity of the spill containment tray that was set up at the base of the dispensing taps. A large plastic storage tote containing new lubricant (Waylube 68) was stored on a metal rack above the chemical dispensing area. The concrete floor slab in the area where the chemicals were stored appeared to be intact (i.e. free of significant cracks).

Two small metal drums of water-based fluorescent penetrant (Ardrox 970P25E) and a small plastic pail of acetone were stored underneath a workbench located in the NDT area. No visible or olfactory evidence of spillage was observed in this area.

Four plastic totes containing fluorescent liquid waste from the NDT area and metals bins containing waste metal grindings were observed in an outdoor storage area located at the northeast portion of the Site. When full, the plastic totes are removed off-Site by Green For Life Environmental Corp., a private liquid waste services contractor. Evidence of some localized stains was observed in this area.

Mr. Lee was not aware of any significant spills or releases of chemicals used and stored on Site. No other evidence of significant spills/releases was observed by CRA at the time of the Site inspection.

### 3.6 FLOOR DRAINS, PITS, AND SUMPS

Two shallow concrete pits, which extended from the north end to the south end of the manufacturing plant, were observed below the base of the metal working machines. Coolant and hydraulic oil that leak from the machine are drained into the pits. According to Mr. Lee and other plant staff, the liquids accumulated in the pits are pumped out approximately once a month by Green For Life Environmental Corp, a private liquid waste services contractor.

Floor drains were observed in the north section of the plant and in a file storage room located in a partial basement below the office section of the building. No operations that may result in the spillage of chemicals were conducted in the vicinity of the floor drains.

A sump was observed in the NDT area that was used to collect the fluorescent water-based solution used for testing the integrity of the turbine components. The liquid wastes drains into the sump, which is connected downstream to a waste splitter that separates the fluorescent material from the water through a filtration system. The fluorescent liquid waste is collected in a large plastic drum and the water is released into the sanitary system.

### 3.7 WASTEWATER/SEWERS

Mr. Lee stated that domestic wastewater from the washrooms and lunchroom areas in the office portion of the building discharge to the municipal sanitary sewer system operated by the City of Toronto.

No specific information concerning wastewater discharge during the historical operations conducted at the Site by the former air conditioning and heating equipment distribution, truck repair, and machine shop operations was obtained during the Phase I ESA.

### 3.8 STORMWATER/SURFACE WATER

Stormwater generated on the Site either infiltrates the ground surface, or flows overland to the south towards storm sewers located in the asphalt covered areas in the southern portion of the Site or onto to Oakdale Road. The stormsewers are connected to the municipal stormwater system operated by the City of Toronto.

No sources of adverse impact to stormwater generated at the Site were observed by CRA during the Site inspection. At the time of the Site inspection, no visual evidence of impact from surface water run-on from the adjacent properties was observed by CRA.

### 3.9 SOLID WASTE/RECYCLABLE MATERIALS

Based on information provided by Mr. Lee and observations made by CRA, solid waste and recyclable materials historically generated at the Site included the following:

- Scrap metal grindings
- General office waste
- Waste paper/cardboard

Wastes generated at the Site include primarily paper, cardboard and scrap metal grindings from the machining of gas turbine components. The remainder of the waste consists of general office waste that is placed in a dumpster located at the southeast corner of the building. The office waste and cardboard-containing dumpsters are emptied twice a week by BFI, a private solid waste services contractor. The waste metal grindings are placed in metal bins of various sizes located east of the building and collected as needed by Attar, a private recycling contractor.

Mr. Lee stated that, to his knowledge, no solid wastes have been accumulated or disposed of on Site. At the time of the Site inspection, no visual evidence of on-Site solid waste disposal was observed by CRA.

### **3.10      SUBJECT WASTE/HAZARDOUS WASTE**

The Site is currently registered with the MOE as a Subject/Hazardous Waste generator. Based on a review of the ERIS database report, KK Precision Parts Ltd. was identified as a generator of waste oils/sludges (petroleum based) and emulsified oils for various years between 1997 and 2010. Precinda Ltd. was identified as a generator of emulsified oils in 2005.

These wastes accumulate in the concrete pits located beneath the machinery in the manufacturing area. According to Mr. Lee and other plant staff, the liquids accumulated in the pits are pumped out approximately once a month by Green For Life Environmental Corp, a private liquid waste services contractor.

Mr. Lee was not aware of any on-Site disposal of Subject Hazardous Waste. No evidence of on-Site Subject or Hazardous Waste disposal was observed by CRA at the time of the Site inspection.

### **3.11      CHEMICAL SPILLS/RELEASES**

According to Mr. Lee, no reportable spill/releases incidents have occurred at the Site. No visual evidence of significant chemical spills or releases was observed by CRA during the Site inspection.



### 3.12 ASBESTOS-CONTAINING MATERIALS (ACM)

The presence of asbestos-containing materials (ACM) was investigated through visual observations made by CRA. No intrusive investigations were conducted to examine the areas of concealed space for the presence of ACM. Mr. Lee was not aware of any ACM being present in the on-Site building or of an ACM Survey ever being conducted for the Site. Based on observations made by CRA, potential ACM at the Site includes the following:

- Drywall in the office areas of the building
- Ceiling tiles in the office area of the building
- General building materials (i.e., roof materials, window caulking, etc.)

At the time of the Site inspection, all potential ACM identified above appeared to be in good condition.

### 3.13 POLYCHLORINATED BIPHENYLS (PCBs)

According to Mr. Lee, no PCB-containing equipment has been used, stored, or handled at the Site. At the time of the Site inspection, potential PCB-containing equipment observed by CRA included a pad-mounted electrical transformer operated by Toronto Hydro that is present on the eastern portion of the Site, on the grassed-area.

Additional potential PCB-containing equipment observed by CRA was limited to the ballasts in the fluorescent light fixtures and high density discharge lighting located in the building. At the time of the Site inspection, the light fixtures were observed to be in good working order. Based on the age of the building, it is possible that some of the older ballasts may contain PCBs.

Mr. Lee reported that, to his knowledge, no PCB-containing wastes are presently stored on Site. No evidence of on-Site PCB waste storage was observed by CRA during the Site inspection.

### 3.14 AIR EMISSIONS

Air emissions at the Site are limited to the exhausts from the natural gas-fired building heating equipment.

### 3.15 LEAD-BASED PAINT

The amount of lead in interior paint has been regulated since 1976 through Health Canada's Hazardous Products Act. Based on the age of the building (1960s), it is possible that lead-based paint is present. In general, all painted surfaces were found to be in good condition.

### 3.16 IONIZING RADIATION

Mr. Lee reported that he is not aware of any use or storage of commercial sources of ionizing radiation at the Site. At the time of the Site inspection, no evidence of ionizing radiation sources was observed at the Site by CRA. Mr. Lee also reported that to his knowledge, a radon gas survey has not been conducted at the Site.

### 3.17 REGULATORY AGENCY RECORDS

Mr. Lee reported that no concerns, complaints, notices of violation, or directives of an environmental nature have been issued against the Site by federal, provincial, or municipal environmental regulatory agencies.

The MOE was contacted by CRA to provide information as to any past complaints, violations, and/or MOE directives concerning the Site. To date, no information has been received from the MOE. Typically, the MOE takes approximately 8 to 12 weeks to process a file search. CRA will forward a copy of the file search under separate cover to ITW, if the file search identifies any environmental concerns.

The Technical Standards and Safety Authority (TSSA) was contacted by CRA and asked to provide information concerning licensed (retail fuel outlets) or registered (private fuel outlets) underground storage tanks located at the Site. TSSA personnel reported to CRA that their records do not identify the presence of any licensed or registered underground storage tanks at the Site. A copy of the TSSA correspondence is included in Appendix G.

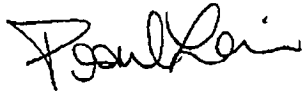
CRA reviewed the Ontario Ministry of Natural Resources' - "Natural Heritage Information Centre" database to identify areas registered as Areas of Natural or Scientific Interest (ANSI) within a one kilometre radius of the Site. No records were identified in the ANSI database for properties within a two kilometre radius of the Site.

#### 4.0 CONCLUSIONS

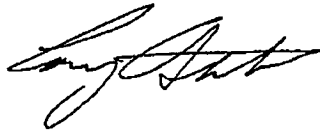
Based on the results of the Phase I ESA, including information provided by facility representatives and regulatory agencies, and historical documents reviewed, the following potential areas of environmental concerns were identified to be associated with the Site.

- i) **Current Site Operations:** Based on the findings of the Site inspection, two shallow concrete pits, which extend from the north end to the south end of the manufacturing plant, were present below the base of the metal working machines. These concrete pits are used for collecting leaked coolant and hydraulic oil from the machines. Localized stains were observed throughout the facility, especially on the concrete floor slab in the northeast section of the plant and the exterior northeast section of the Site where drums and plastic totes containing hydraulic oil, coolant, and mineral spirits, or liquid wastes from the non-destructive testing area were stored. The potential for chemicals to seep into the surrounding soil through cracks in the walls or bases of the concrete pits, and from spills or leaks associated with the chemical storage areas were identified as potential sources of environmental impairment to the Site.
- ii) **Historical Site Operations:** Based on a review of historical information, former occupants of the Site included heavy-duty lift truck repair and machine shop operations. Very limited information was available concerning the types and quantities of chemicals used and stored at the Site in the past, or the nature of wastes generated at the Site in the past. In the absence of this information, these historical operations were identified as potential sources of environmental impairment to the Site.
- iii) **Historic Adjacent Land Use:** Based on a review of historical information, the properties adjacent to the north and east of the Site were occupied by industrial operations including metal working, stamping, and automotive repair operations. Fill and vent pipes associated with a possible underground storage tank had also been observed on a property located approximately 30 metres northeast of the Site. The historical industrial operations on properties located adjacent to the Site were identified as potential sources of environmental impairment to the Site, if chemical releases have occurred on these properties and migrated onto the Site.

All of Which is Respectfully Submitted,  
CONESTOGA-ROVERS & ASSOCIATES



Pearl Lai, B. Sc.

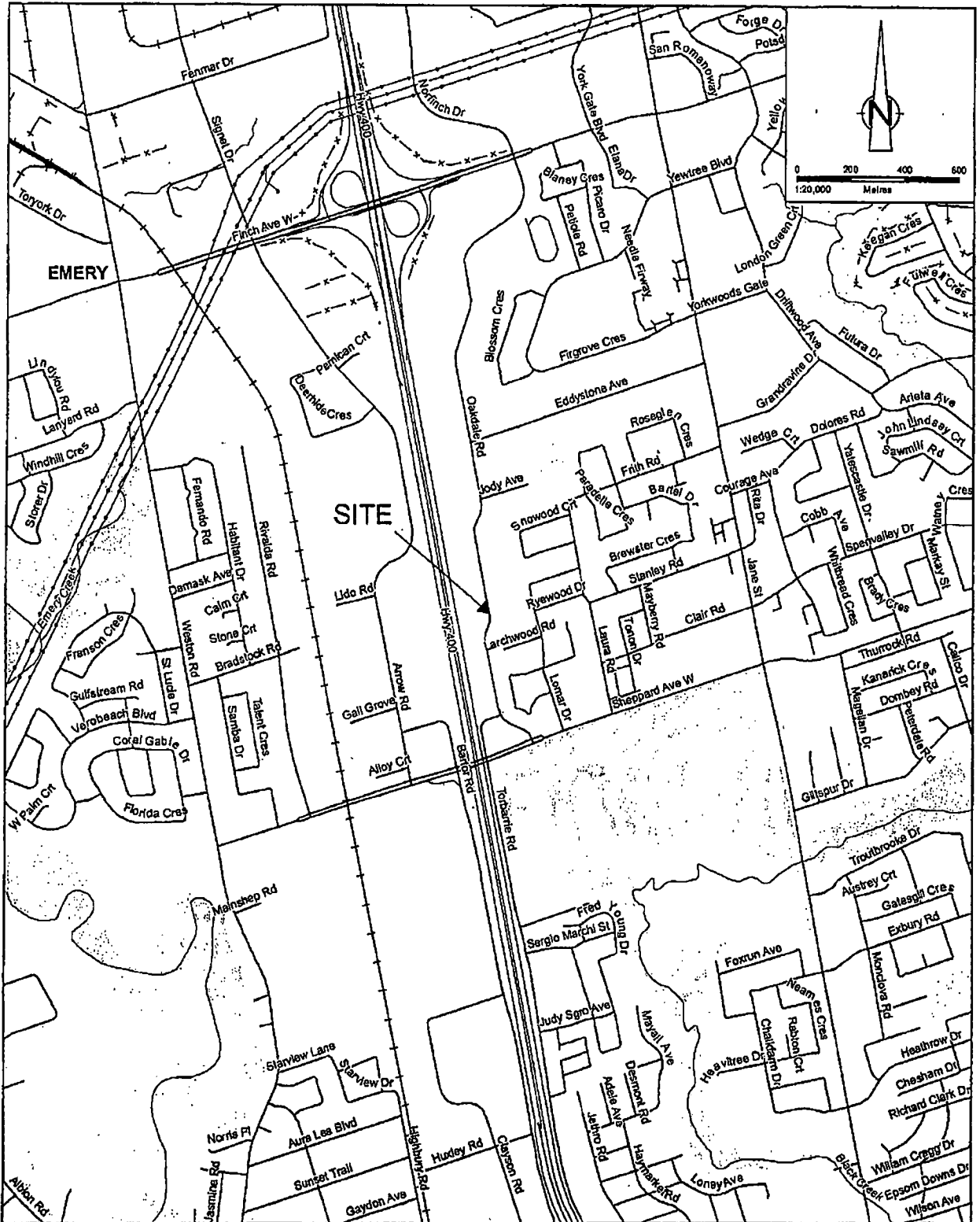


Cory Ostrowka, P. Eng.



Greg Brooks, P. Eng.

FIGURES



Source: MNR NRVIS, 2011. Produced by CRA under licence from Ontario Ministry of Natural Resources, © Queen's Printer 2011;  
 Coordinate System: NAD 1983 UTM Zone 17N

figure 1

**SITE LOCATION MAP**  
**PHASE I ENVIRONMENTAL SITE ASSESSMENT**  
**104 OAKDALE ROAD, TORONTO, ONTARIO**  
*River Associates Investments, LLC*



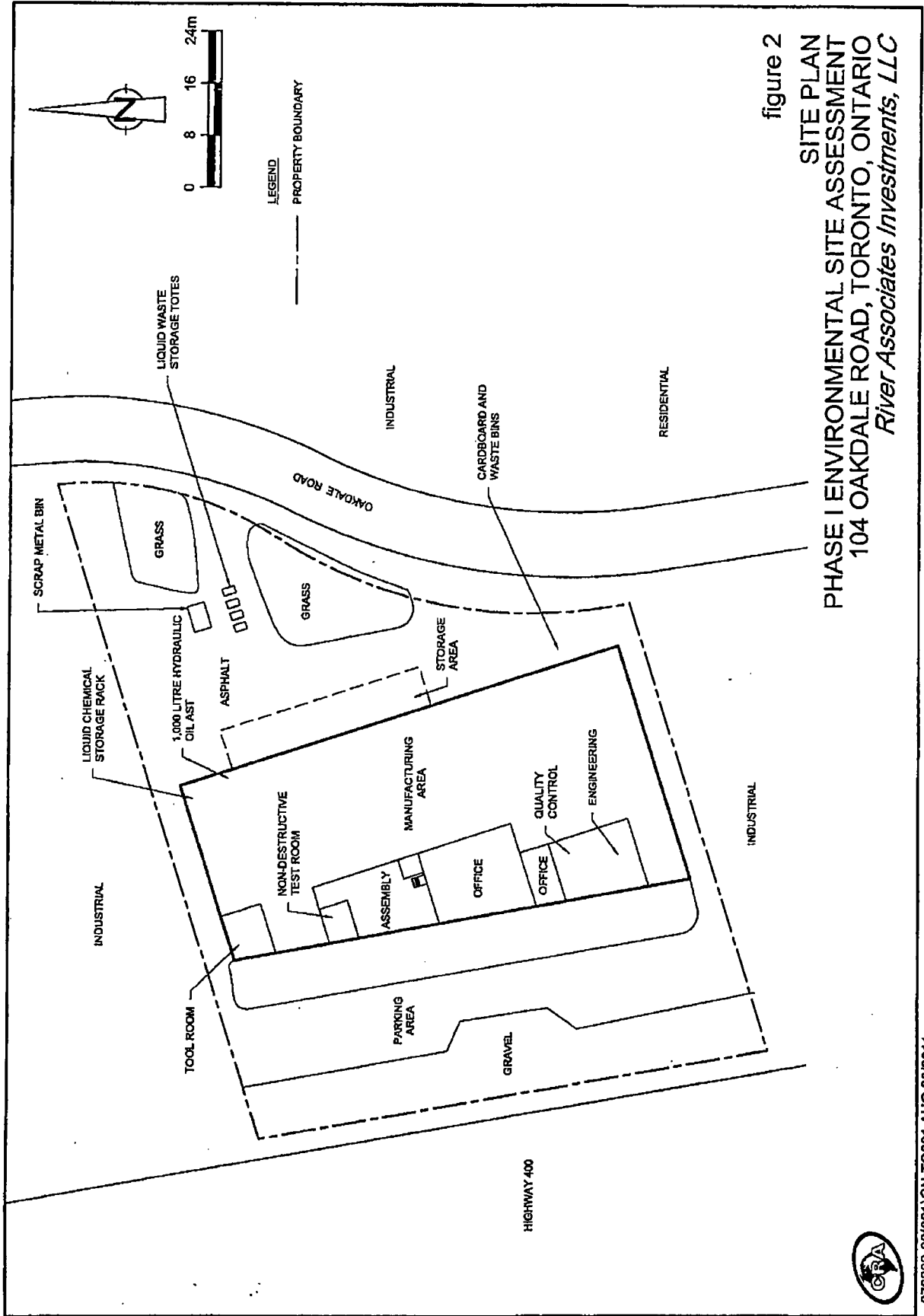


figure 2  
 SITE PLAN  
 PHASE I ENVIRONMENTAL SITE ASSESSMENT  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
*River Associates Investments, LLC*



## **APPENDIX H**





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FINAL REPORT

## PHASE II ENVIRONMENTAL SITE ASSESSMENT

104 OAKDALE ROAD  
TORONTO, ONTARIO

Prepared for: 104 Oakdale Acquisition Corp. and  
Precinda Corp.

Conestoga-Rovers & Associates  
111 Brunel Road, Suite 200  
Mississauga, Ontario L4Z 1X3

July 2013 • #081278  
Report Number: 2

## EXECUTIVE SUMMARY

Conestoga-Rovers & Associates (CRA) was retained by 104 Oakdale Acquisition Corp. and Precinda Corp. to conduct a Phase II Environmental Site Assessment (ESA) at the property located at 104 Oakdale Road in Toronto, Ontario (Site or Property). The purpose of the Phase II ESA was to address the areas of potential environmental impairment (APEIs) identified in the Phase I ESA and assess the general environmental conditions at the Site. The APEIs identified in the Phase I ESA were related to the current use of the Site by K.K. Precision Inc. as a machine shop for the manufacturing of gas turbine components, the historical use of the Site for heavy-duty lift truck repair and machine shop operations, and the use of properties adjacent to the north and east of the Site for industrial operations including metal working, stamping, and automotive repair operations. No new APEIs were identified during the Phase II ESA.

Six (6) boreholes were advanced on Site and instrumented as monitoring wells. Soil and groundwater samples were submitted to a certified laboratory for analysis of one or more of grain size, petroleum hydrocarbon fractions F<sub>1</sub> to F<sub>4</sub> (PHC F<sub>1</sub>-F<sub>4</sub>), volatile organic compounds (VOCs), and metals.

The soil and groundwater analytical data were assessed to the 2011 Ministry of the Environment (MOE) full depth generic site condition standards in a non-potable groundwater condition (Table 3) for industrial/commercial/community property use as referenced in Ontario Regulation 153/04, as amended.

Based on the results of this investigation, the following conclusions are provided:

- The geologic deposits underlying fill materials at the Site consist of native silty sand underlain by native clayey silt till.
- The shallow groundwater flow in the overburden at the Site is generally in a westerly direction.
- All soil samples submitted for laboratory analysis had concentrations below the 2011 MOE Table 3 standards. Based on these results, there is no evidence of soil impacts.
- All groundwater samples had concentrations below the 2011 MOE Table 3 standards. Based on these results, there is no evidence of groundwater impacts.
- Based on the results of the Phase II ESA, there is no further site assessment or remediation work recommended for the Site at this time.

## TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
1.0 INTRODUCTION .....	1
1.1 SITE DESCRIPTION .....	1
1.2 BACKGROUND .....	2
2.0 SCOPE OF WORK .....	3
3.0 METHODOLOGY .....	4
3.1 PLANNING .....	4
3.2 FIELD ACTIVITIES .....	4
3.2.1 BOREHOLE ADVANCEMENT .....	4
3.2.2 MONITORING WELL INSTALLATION .....	5
3.2.3 GROUNDWATER SAMPLE COLLECTION .....	6
3.2.4 QUALITY ASSURANCE AND QUALITY CONTROL .....	7
4.0 FINDINGS .....	8
4.1 PHYSICAL CONDITIONS .....	8
4.1.1 STRATIGRAPHY .....	8
4.1.2 GROUNDWATER .....	9
4.1.3 FIELD EVIDENCE OF IMPACT .....	9
4.2 SELECTION OF REGULATORY CRITERIA .....	9
4.3 ANALYTICAL RESULTS .....	11
4.3.1 SOIL .....	11
4.3.2 GROUNDWATER ANALYTICAL RESULTS .....	11
5.0 CONCLUSIONS .....	12

LIST OF FIGURES  
(Following Text)

FIGURE 1	SITE LOCATION MAP
FIGURE 2	SITE PLAN AND INVESTIGATIVE LOCATIONS
FIGURE 3	GROUNDWATER ELEVATION CONTOURS (JUNE 26, 2013)

LIST OF TABLES  
(Following Text)

TABLE 1	SAMPLE IDENTIFICATION KEY AND ANALYTICAL PARAMETERS
TABLE 2	MONITORING WELL COMPLETION DETAILS
TABLE 3	GROUNDWATER ELEVATIONS
TABLE 4a	SUMMARY OF MONITORING WELL PURGING ACTIVITIES (WATERRA)
TABLE 4b	SUMMARY OF MONITORING WELL PURGING ACTIVITIES (LOW-FLOW)
TABLE 5	SUMMARY OF SOIL ANALYTICAL RESULTS
TABLE 6	SUMMARY OF GROUNDWATER ANALYTICAL RESULTS

LIST OF APPENDICES

APPENDIX A	STRATIGRAPHIC AND INSTRUMENTATION LOGS
APPENDIX B	GRAIN SIZE ANALYSIS
APPENDIX C	LABORATORY CERTIFICATES OF ANALYSIS

## 1.0 INTRODUCTION

Conestoga-Rovers & Associates (CRA) was retained by 104 Oakdale Acquisition Corp. and Precinda Corp. to conduct a Phase II Environmental Site Assessment (ESA) of the industrial property and building located at 104 Oakdale Road in Toronto, Ontario (Site or Property). The objective of the Phase II ESA was to determine the soil and groundwater quality in the areas of potential environmental impairment identified in the Phase I ESA and assess the general environmental conditions at the Site. The Phase II ESA was completed to document the environmental conditions at the Site in support of financing, a sale of the Property, and in connection with a prior sale of K.K. Precision Inc. It is CRA's understanding that the land use will remain industrial in the foreseeable future and a Record of Site Condition (RSC) is not intended to be filed for the Property.

### 1.1 SITE DESCRIPTION

The Site is located at 104 Oakdale Road in Toronto, Ontario (Figure 1). The Property is approximately 0.73 hectares (1.8 acres) in size and irregular in shape. The Site contains one single-storey building that is approximately 2,600 square metres (28,000 square feet) in size. The Site is located in an area of Toronto that has been developed for industrial land use since the 1960s. The Site plan is shown on Figure 2.

The exterior surfaces surrounding the building consist of asphalt-paved driveways and areas for parking, loading, and storage. The Site can be accessed from the east side of the Property via two asphalt-paved driveways on Oakdale Road. The Property is relatively flat with the ground surface sloped gently towards the south Property boundary.

The Site is relatively flat with a gentle slope to the south. Regional topography slopes steadily downward to the southwest. The Site is situated approximately 1.4 kilometres northeast of the Humber River. Based on the topography of the area, the regional groundwater flow direction is suspected to be predominantly southwest towards the Humber River. Shallow groundwater flow direction, can be influenced by the presence of underground utility lines or other underground structures. Underground utilities in the area of the Site where the work was performed include telephone, natural gas, water, sanitary sewer, and electrical services.

## 1.2 BACKGROUND

CRA completed the report entitled "Phase I Environmental Site Assessment, Light Industrial Facility, 104 Oakdale Road, Toronto, Ontario" dated August 2011. Based on the results of the Phase I ESA, the following areas of potential environmental impairment (APEIs) were identified to be associated with the Site.

- i) **Current Site Operations:** The Site is currently occupied by K.K. Precision Inc. as a machine shop for the manufacturing of gas turbine components. Based on the findings of the Phase I ESA Site inspection, two shallow concrete pits, which extend from the north end to the south end of the manufacturing plant, were present below the base of the metal working machines. These concrete pits are used for collecting leaked coolant and hydraulic oil from the machines. Localized stains were observed throughout the facility, especially on the concrete floor slab in the northeast section of the plant and the exterior northeast section of the Site where drums and plastic totes containing hydraulic oil, coolant, and mineral spirits, or liquid wastes from the "non-destructive testing" area were stored. The potential for chemicals to seep into the surrounding soil through cracks in the walls or bases of the concrete pits, and from spills or leaks associated with the chemical storage areas were identified as potential sources of environmental impairment to the Site.
- ii) **Historical Site Operations:** Former occupants of the Site included heavy-duty lift truck repair and machine shop operations. Very limited information was available concerning the types and quantities of chemicals used and stored at the Site in the past, or the nature of wastes generated at the Site in the past. In the absence of this information, these historical operations were identified as potential sources of environmental impairment to the Site.
- iii) **Historic Adjacent Land Use:** The properties adjacent to the north and east of the Site were occupied by industrial operations including metal working, stamping, and automotive repair operations. Fill and vent pipes associated with a possible underground storage tank had also been observed on a property located approximately 30 metres northeast of the Site. The historical industrial operations on properties located adjacent to the Site were identified as potential sources of environmental impairment to the Site, if chemical releases have occurred on these properties and migrated onto the Site.

## 2.0 SCOPE OF WORK

The Phase II ESA was conducted in general accordance with the document entitled "CSA Z769-00, Phase II Environmental Site Assessment" for conducting environmental site assessments. The work undertaken generally followed the protocols presented in Ontario Regulation 153/04. The Phase II ESA was completed in June and July 2013 and included the following activities:

- Obtaining utility clearances for the Site
- Preparation of a Site-specific health and safety plan (HASP)
- Advancement of six (6) overburden boreholes instrumented as monitoring wells
- Collection and analysis of soil samples for one or more of grain size, petroleum hydrocarbon fractions F<sub>1</sub> to F<sub>4</sub> (PHC F<sub>1</sub>-F<sub>4</sub>), volatile organic compounds (VOCs), and metals
- Collection of groundwater levels and groundwater samples from the six (6) new monitoring wells for analysis of one or more of PHC F<sub>1</sub>-F<sub>4</sub>, VOCs, and metals
- Preparation of a report documenting the field activities and laboratory analytical results

The rationale for the selection of the investigative locations is summarized in the table below and the investigative locations are presented on Figure 2.

### *Investigative Locations, Activity and Rationale:*

Location	Activity	Rationale	Analysis	
			Soil	Groundwater
MW1	Monitoring Well Installation	To investigate general soil and groundwater quality in the southeastern portion of the Site.	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals
MW2	Monitoring Well Installation	To investigate soil and groundwater quality in vicinity of liquid waste storage area.	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals
MW3	Monitoring Well Installation	To investigate general soil and groundwater quality downgradient of manufacturing area.	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals
MW4 and MW6	Monitoring Well Installation	To investigate soil and groundwater quality within the manufacturing area.	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals
MW5	Monitoring Well Installation	To investigate soil and groundwater quality in vicinity of bulk chemical storage area and hydraulic oil AST.	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals	PHC F <sub>1</sub> -F <sub>4</sub> , VOCs, metals

### 3.0 METHODOLOGY

#### 3.1 PLANNING

Prior to initiating subsurface activities all applicable utility companies (natural gas, cable, telephone, hydroelectricity, water, and sewers) were contacted to demarcate the location of their respective underground utilities. CRA also retained a private utility locating contractor (OnSite Locates) to demarcate any additional on-Site utilities on May 30, 2013.

A Site-specific HASP was prepared, reviewed, and implemented by CRA. A copy of the HASP was maintained on-site for the duration of the field activities.

#### 3.2 FIELD ACTIVITIES

##### 3.2.1 BOREHOLE ADVANCEMENT

On June 5 and 6, 2013, six (6) boreholes (MW1 to MW6) were advanced by Strata Soil Sampling Inc. (Strata), a Ministry of Environment (MOE)-licensed drilling contractor. A Geoprobe 7822DT track-mounted direct push drill rig equipped with 150 millimetre (6-inch) diameter solid-stem augers was utilized for borehole and monitoring well installation at MW1 to MW5. A Geoprobe 54LT track-mounted direct push drill rig was used for MW6. During the advancement of the boreholes, soil samples were collected continuously using plastic tube samplers over 1.5 metre (5 foot) intervals at MW1 to MW5, and over 1.2 metres (4 foot) intervals at MW6. A new plastic tube was used for each sampling interval. Boreholes were advanced to a maximum depth of 7.6 metres below ground surface (mBGS).

The samples collected from the boreholes were logged, detailing geologic conditions encountered, soil classification, stratigraphy, relative moisture content, field evidence of impact (i.e., odour, staining), and organic vapour headspace readings. The organic vapour headspace readings were completed using a MiniRae 2000 photoionization detector (PID) equipped with a 10.6 electron volt (eV) lamp calibrated according to the manufacturer's recommendations. The stratigraphic and instrumentation logs are provided in Appendix A.

Soil samples collected from each borehole were screened in the field for evidence of impact based on visual and olfactory observations and undifferentiated VOC vapour readings, as measured by the PID. Soil samples that exhibited the strongest field evidence of impact and/or the highest PID reading were submitted to the laboratory for



analysis. Soil samples were collected in laboratory supplied sample containers specific to the analytical parameters. Select soil samples were submitted to Maxxam Laboratories (Maxxam), a Canadian Association for Laboratory Accreditation (CALA) certified laboratory, for chemical analysis of one or more of PHC fractions F<sub>1</sub>-F<sub>4</sub>, VOCs, and metals. A summary of soil samples submitted for laboratory analysis is presented in Table 1.

Prior to collection of samples and between each sampling event, all sampling tools were decontaminated with a phosphate-free detergent (i.e., Alconox®) and de-ionized water.

Surplus soils and purge water generated during the field activities were temporarily containerized on Site in 205 litre drums and stored outside on the east side of the Property. The drums (four soil cutting drums and one purge water drum) were removed from the Site on June 28, 2013 for off-Site disposal at a Da-Lee Environmental Services facility in Stoney Creek, Ontario by Assured Industrial Services.

### 3.2.2 MONITORING WELL INSTALLATION

Monitoring wells were installed in each of the boreholes (MW1 to MW6) using the track-mounted direct push drill rig to a depth of up to 7.6 mBGS. Monitoring wells MW1 to MW5 installed by the Geoprobe 7822DT were completed with 51 mm (2-inch) diameter riser pipe and a No. 10 slot, Schedule 40 PVC screen, 3.05 metres (10 feet) in length. Monitoring well MW6 installed by the Geoprobe 54LT was completed with 32 mm (1.25-inch) diameter riser pipe and a No. 10 slot, Schedule 40 PVC screen, 1.52 metres (5 feet) in length. A No. 1 silica sand pack was placed around the well screen interval to 0.3 metres above the top of the screen. A granular bentonite well seal was placed above the sand pack to 0.3 metres below ground surface (mBGS). A protective flushmount casing with a 0.3-metre thick concrete collar was placed around each well upon completion. Monitoring wells were screened across the groundwater table within a clayey silt till deposit based on field observations. Well completion details are presented on the stratigraphic and instrumentation logs and are provided in Appendix A and Table 2.

Each monitoring well was surveyed for horizontal and vertical control with respect to a local benchmark (top of the concrete floor slab on the north side of the southeast bay door) with an assumed elevation of 100.00 metres above site datum (mASD). The ground surface and top of riser pipe elevation of each monitoring well were surveyed with respect to the benchmark.

### 3.2.3 GROUNDWATER SAMPLE COLLECTION

Prior to groundwater sample collection, each monitoring well was developed to achieve chemical equilibrium. In order to ensure that samples representative of on-Site groundwater quality were obtained, the following protocol was followed:

- Groundwater level measurements were collected on June 13, 2013 and June 26, 2013 at each of the monitoring well locations. A summary of groundwater level measurements is presented in Table 3.
- The groundwater monitoring wells were equipped with a dedicated Waterra™ foot valve and polyethylene tubing for well development and sampling activities.
- The groundwater monitoring wells were purged a minimum of three to five well volumes. In the event that slow groundwater recharge conditions were encountered, the well was purged until dry and then allowed to recover prior to sample collection.
- Field measurements of temperature, pH, and electrical conductivity were taken at after each well volume was removed. Well volumes were removed until three consistent consecutive readings were obtained to demonstrate that chemical equilibrium had been reached.

Groundwater samples were collected on June 14, 2013 at all well locations using the Waterra tubing. The samples were placed directly into laboratory-supplied sample containers specific to the analytical parameters. Samples collected for metals analysis were field-filtered. It was noted that the sample collected from MW3 contained a significant amount of sediment, and it was realized that this had the potential to produce lab results not representative of actual groundwater chemistry in the vicinity of the well. Groundwater samples were submitted to Maxxam for chemical analysis of one or more of PHC F<sub>1</sub>-fractions F<sub>4</sub>, VOCs, and metals. A summary of groundwater samples submitted for laboratory analysis is presented in Table 1. On June 26, 2013, MW3 was resampled using low-flow purging techniques to collect a sample with less entrained sediment than the previous sample collected on June 14, 2013. During low-flow sampling activities, field measurements of pH, electrical conductivity, temperature, oxidation/reduction potential, dissolved oxygen, and turbidity were taken at five-minute intervals until three consistent consecutive readings of each parameter were obtained. A summary of well sampling field parameter data is presented in Tables 4a (Waterra) and 4b (low-flow).

### 3.2.4 QUALITY ASSURANCE AND QUALITY CONTROL

A Quality Assurance/Quality Control (QA/QC) program was implemented to ensure quality data were generated. The QA/QC program included the collection of a groundwater field duplicate at MW3 to validate the field and laboratory procedures. These samples were analyzed in addition to the analysis of QC samples completed by the laboratory as required by their analytical methods.

All samples were submitted to the analytical laboratory following chain of custody procedures. The chain of custody forms document the condition and handling of the samples throughout the collection, transportation, and final analyses of the samples.

Following receipt of the analytical data from the laboratory, a CRA chemist performed data quality assessments and validations. The evaluation of the analytical data is based on the QA/QC information provided by laboratory including laboratory blank data, laboratory duplicate data, and laboratory surrogate spike and check recovery data, as well as sample holding times, and field duplicate analysis.

## 4.0 FINDINGS

### 4.1 PHYSICAL CONDITIONS

#### 4.1.1 STRATIGRAPHY

During the field activities undertaken at the Site, the following surficial materials and stratigraphy was encountered at the Site (from ground surface):

- *Asphalt*- A surficial layer of asphalt ranging between 0.03 metres to 0.18 metres thick was present at surface at MW1, MW2, and MW3.
- *Concrete* - A concrete ranging between 0.15 metres to 0.25 metres thick was present at surface at MW4, MW5, and MW6.
- *Sand and Gravel Fill and Sand Fill* - Sand and gravel fill were encountered beneath the asphalt at borehole locations MW1 through MW3 to depths ranging from 0.2 to 0.3 mBGS. Sand fill was observed beneath the concrete floor slab at borehole locations MW4 through MW6 to depths ranging from 1.2 to 2.4 mBGS.
- *Silty Sand* - Native silty sand was encountered underlying the sand and gravel fill and sand fill at all borehole locations except MW6 to depths ranging from 0.5 to 4.1 mBGS.
- *Clayey Silt Till* - Native clayey silt till was encountered underlying the silty sand at all boreholes locations to the full depths of the investigation (7.6 mBGS). It was noted that the clayey silt till became wet at depths ranging from 3.3 and 5.5 mBGS.

Detailed descriptions of the geologic deposits encountered at each borehole location are presented on the stratigraphic logs provided in Appendix A.

A representative soil sample from the zone of saturation was submitted for laboratory analyses of grain size from the clayey silt till (MW6 3.1 to 3.7 mBGS). Under Section 42 of Ontario Regulation 153/04 - Records of Site Condition, as amended, coarse soils are defined as soils that contain more than 50% by mass of particles that are 75-micrometres or larger in mean diameter. Based on the results of the grain size analyses, the percent of particles by mass larger than 75-micrometres in mean diameter was reported to be 34% at MW6. Therefore, the native clayey silt till is considered to be medium to fine-textured. Copies of the grain size results are provided in Appendix B.

#### **4.1.2 GROUNDWATER**

Groundwater level measurements are presented in Table 3. On June 26, 2013, groundwater was measured within the overburden at elevations ranging from 97.17 mASD (2.64 mBGS) at MW3 to 98.52 mASD (1.36 mBGS) at MW2.

Groundwater elevation contours for June 26, 2013 are presented on Figure 3. Based on the groundwater level measurements collected from the monitoring wells, groundwater flow at the Site is generally to the west at a horizontal gradient of approximately 0.03 m/m.

#### **4.1.3 FIELD EVIDENCE OF IMPACT**

During drilling activities, soil samples collected from each borehole were screened in the field for evidence of impact based on visual and olfactory observations and on undifferentiated VOC vapour readings, as measured by a PID. There was no visual or olfactory evidence of impact during the investigation. The PID headspace readings for the soil samples collected are presented on the stratigraphic and instrumentation logs provided in Appendix A. The PID readings recorded were all less than 10 parts per million (ppm).

#### **4.2 SELECTION OF REGULATORY CRITERIA**

The soil and groundwater analytical results were assessed to the generic standards provided in the MOE document entitled, "*Soil, Ground Water and Sediment Standards for Use Under Part XV.1 of the Environmental Protection Act*," dated April 15, 2011. The 2011 MOE Standards are referenced in Ontario Regulation 153/04 - Records of Site Condition, as amended (hereafter referred to as the 2011 MOE standards).

The 2011 MOE standards provide generic soil and groundwater quality standards for certain chemicals, based on combinations of different site-specific conditions:

- *Property use type* - agricultural, residential/parkland/institutional, or industrial/commercial/community. The current property use at the Site is industrial.
- *Restoration of groundwater quality* - potable/non-potable. The Site and surrounding lands are serviced with potable water from City of Toronto's municipal water distribution system which obtains water from Lake Ontario. As such, a non-potable groundwater condition was applied to the Site.

- *Restoration depth* - full depth and stratified depth. For comparative purposes, results were compared to full depth standards.
- *Soil texture* - coarse and medium-fine. Soil and groundwater results were assessed to the medium to fine-textured standards, as a review of the borehole logs and grain size analysis completed for the Site indicates that less than 2/3 of the soil at the Site by volume contains greater than 50% by mass of particles that are greater than 75 micrometres in diameter.
- *Shallow soil property* - A shallow soil property means a property of which a third or more of the area consists of soil equal to or less than 2 metres in depth beneath the soil surface, excluding any non-soil surface treatment. The Site or surrounding adjacent properties are not considered to be a shallow soil property as two thirds or more of the area consists of soil greater than 2 metres in depth.
- *Within 30 metres of a water body* - The Site does not include or is not adjacent to a water body, nor is it located within 30 metres of a water body.

The generic 2011 MOE Standards are not applicable if the Site is considered to be an environmentally sensitive area. The conditions for the above are presented in Section 41 of Ontario Regulation 153/04, as amended. Based on a review of these conditions, the generic 2011 MOE Standards are considered applicable as:

- The Site is not within an area of natural significance; includes or adjacent to an area of natural significance or part of such an area, or includes land that is within 30 metres of an area of natural significance or part of such an area<sup>1</sup>.
- Subsurface soil with pH less than 5 or greater than 11 are considered environmentally sensitive in accordance with Ontario Regulation 153/04. The pH for the Site was measured to range from 7.64 at MW3 to 7.99 at MW6, therefore the Site is not considered to be sensitive.

Based on the above, the soil and groundwater analytical results were assessed to the generic full depth site condition standards for *medium to fine-textured* soils in a non-potable groundwater condition (Table 3) for industrial/commercial/community property use.

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<sup>1</sup> Ministry of Natural Resources (MNR), Natural Heritage Information Centre (NHIC) Database (2012). [www.biodiversityexplorer.mnr.gov.on.ca/nhicWEB/mainSubmit.do](http://www.biodiversityexplorer.mnr.gov.on.ca/nhicWEB/mainSubmit.do).

### 4.3 ANALYTICAL RESULTS

#### 4.3.1 SOIL

Soil analytical results are presented in Table 5 and copies of the laboratory Certificates of Analysis are provided in Appendix C. All samples submitted for laboratory analysis had concentrations below the MOE Table 3 standards. Based on these results, there is no evidence of soil impacts.

#### 4.3.2 GROUNDWATER ANALYTICAL RESULTS

Groundwater analytical results are presented in Table 6 and copies of the laboratory Certificates of Analysis are provided in Appendix C. All groundwater samples had concentrations of PHC fractions F<sub>1</sub> to F<sub>4</sub>, VOCs, and metals below the 2011 MOE Table 3 standards, with one exception. The duplicate groundwater sample collected from MW3 on June 14, 2013 contained PHC fraction F<sub>4</sub> concentrations of 8,800/4,800 µg/L, which is above the 2011 MOE Table 3 standard of 500 µg/L. It was noted that during sampling activities on June 14, 2013, the groundwater at MW3 was very silty during the well development activities. These results did not fit within the expected outcome based on the soil results, the other groundwater results, and the location of MW3. Therefore, given these expectations and the sediment contained in the initial samples, to ensure accurate results another groundwater sample was collected from MW3 on June 26, 2013. The well was developed again to ensure that all sediments entrained within the riser during monitoring well installation activities were removed. Low-flow sampling techniques were then used to resample MW3. The results of the June 26, 2013 PHC analyses at MW3 report that the concentrations of PHC fraction F<sub>4</sub> in both the sample and the field duplicate were below the laboratory reportable detection limit (less than 200 µg/L). This result is considered to be more reliable since the sample with less sediment is more representative of actual groundwater quality in the vicinity of the well. Therefore, the elevated PHC fraction F<sub>4</sub> concentrations in the samples collected at MW3 on June 14, 2013 are likely residual effects from the monitoring well installation activities. Based on these results, there is no evidence of groundwater impacts.

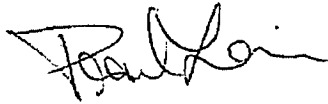
## 5.0 CONCLUSIONS

Based on the results from this investigation, the following conclusions are provided:

1. The geologic deposits underlying fill materials at the Site consist of native silty sand underlain by clayey silt till.
2. The shallow groundwater flow in the overburden at the Site is generally in a westerly direction.
3. All soil samples submitted for laboratory analysis had concentrations below the 2011 MOE Table 3 standards. Based on these results, there is no evidence of soil impacts.
4. All groundwater samples had concentrations below the 2011 MOE Table 3 standards. Based on these results, there is no evidence of groundwater impacts.
5. Based on the results of the Phase II ESA, there is no further site assessment or remediation work recommended for the Site at this time.



All of Which is Respectfully Submitted,  
CONESTOGA ROVERS & ASSOCIATES



Pearl Lai, M. Env. Sc.

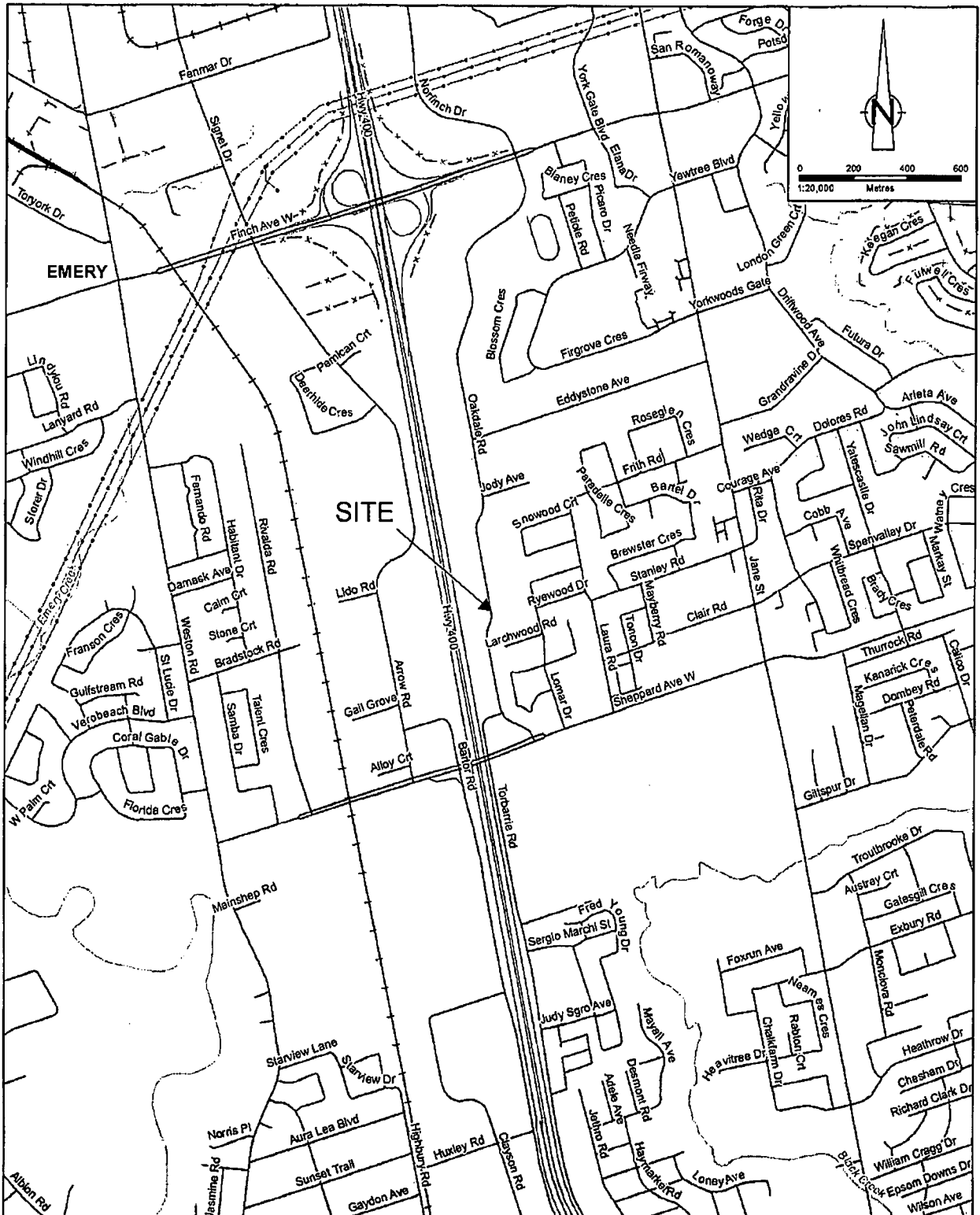


Cory Ostrowka, P. Eng.



Thomas Guoth, P. Eng.

## FIGURES



Source: MNR NRVIS, 2011. Produced by CRA under licence from Ontario Ministry of Natural Resources, © Queen's Printer 2011;  
 Coordinate System: NAD 1983 UTM Zone 17N

figure 1

**SITE LOCATION MAP**  
**PHASE II ENVIRONMENTAL SITE ASSESSMENT**  
**104 OAKDALE ROAD, TORONTO, ONTARIO**  
*TerraNova Partners L.P.*



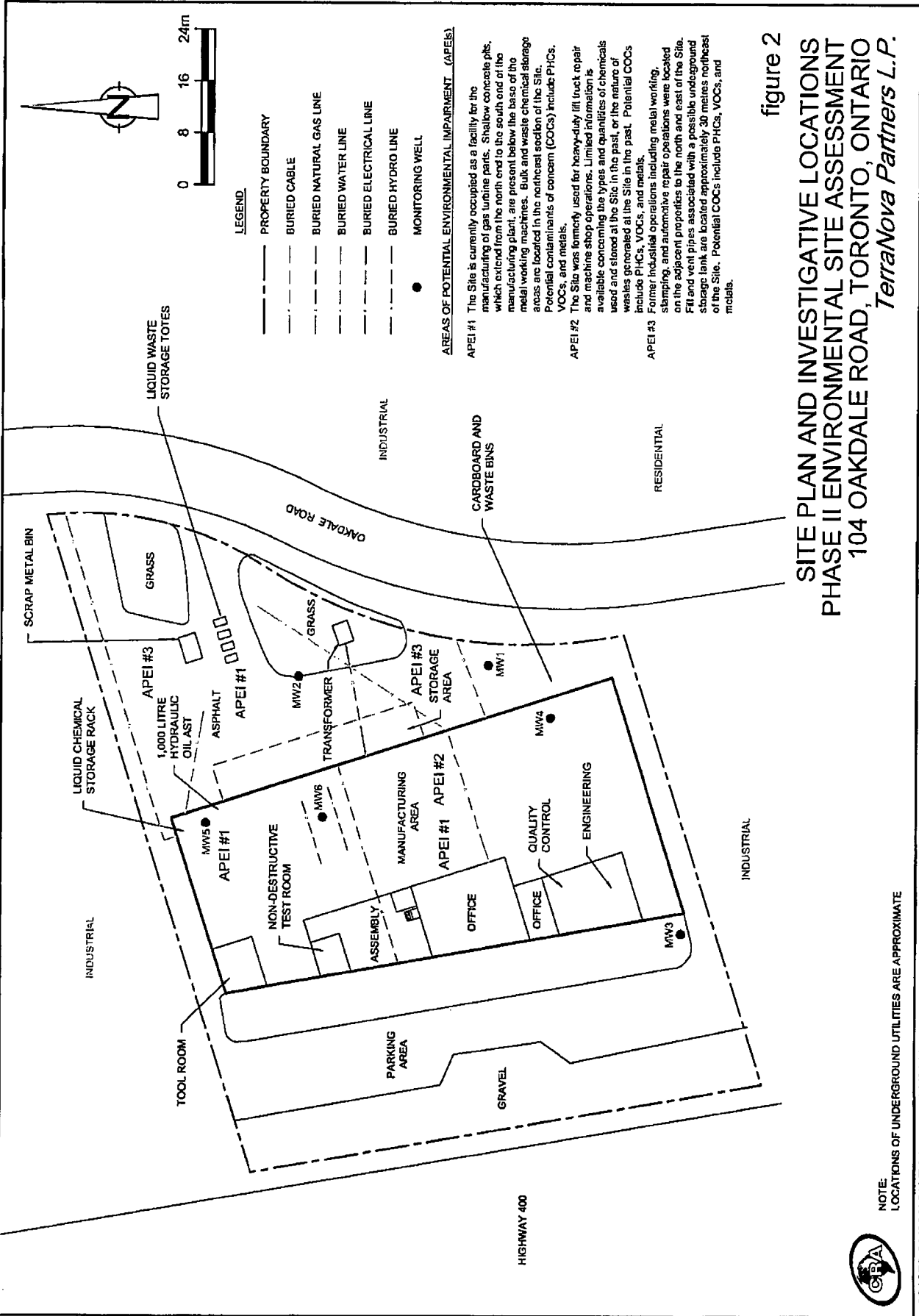


figure 2  
 SITE PLAN AND INVESTIGATIVE LOCATIONS  
 PHASE II ENVIRONMENTAL SITE ASSESSMENT  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
 TerraNova Partners L.P.

- LEGEND**
- PROPERTY BOUNDARY
  - - - BURIED CABLE
  - · - · - BURIED NATURAL GAS LINE
  - · - · - BURIED WATER LINE
  - · - · - BURIED ELECTRICAL LINE
  - · - · - BURIED HYDRO LINE
  - MONITORING WELL

**AREAS OF POTENTIAL ENVIRONMENTAL IMPAIRMENT (APEIs)**

**APEI #1** The Site is currently occupied as a facility for the manufacturing of gas turbine parts. Shallow concrete pits, which extend from the north end to the south end of the manufacturing plant, are present below the base of the metal working machines. Bulk and waste chemical storage areas are located in the northeast section of the Site. Potential contaminants of concern (COCs) include PHCs, VOCs, and metals.

**APEI #2** The Site was formerly used for heavy-duty lift truck repair and machine shop operations. Limited information is available concerning the types and quantities of chemicals used and stored at the Site in the past. Potential COCs include PHCs, VOCs, and metals.

**APEI #3** Former industrial operations including metal working, stamping, and automotive repair operations were located on the adjacent properties to the north and east of the Site. Fill and vent pipes associated with a possible underground storage tank are located approximately 30 metres northeast of the Site. Potential COCs include PHCs, VOCs, and metals.

NOTE:  
 LOCATIONS OF UNDERGROUND UTILITIES ARE APPROXIMATE



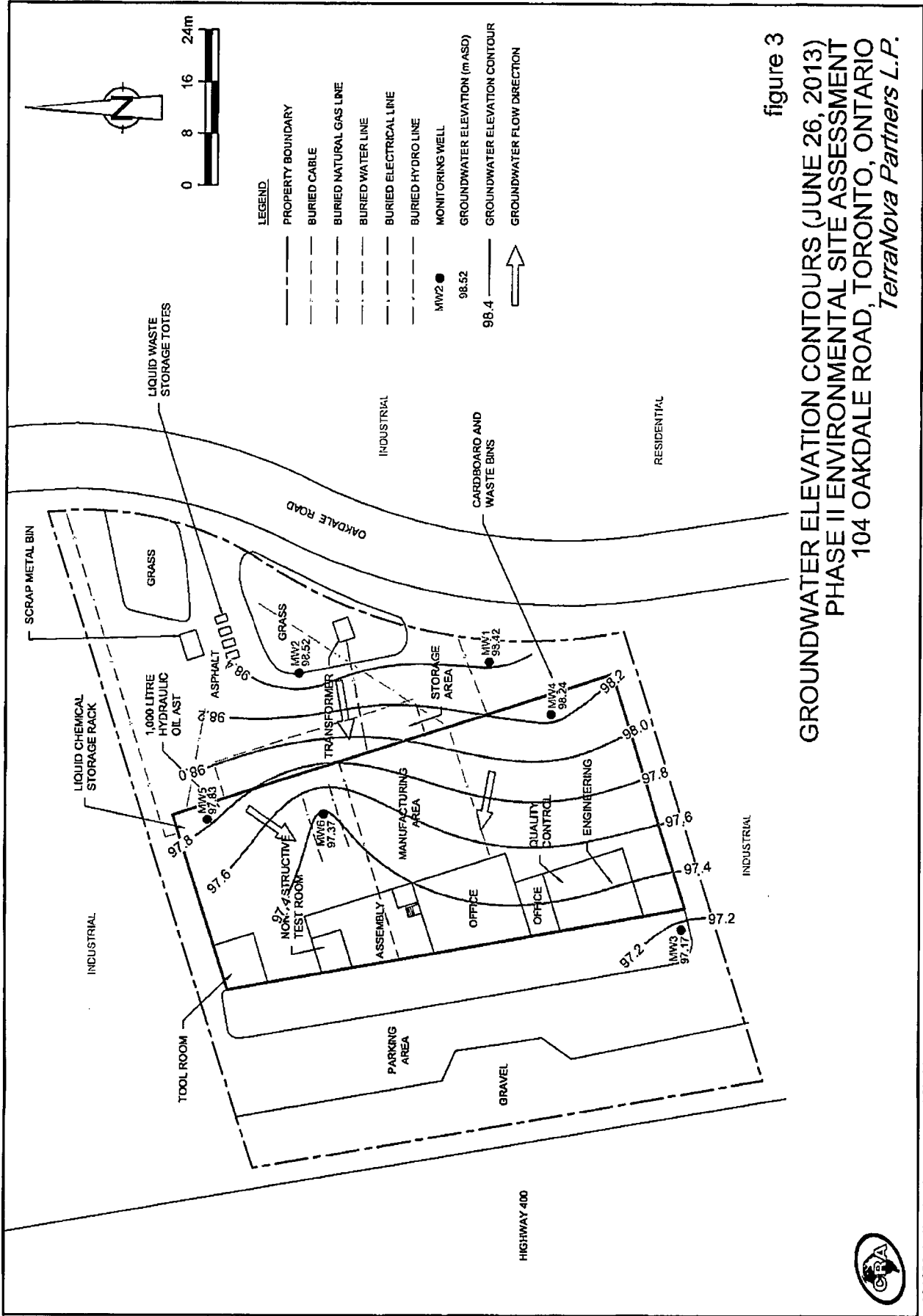


figure 3  
 GROUNDWATER ELEVATION CONTOURS (JUNE 26, 2013)  
 PHASE II ENVIRONMENTAL SITE ASSESSMENT  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
 TerraNova Partners L.P.



## TABLES

TABLE 1

**SAMPLE IDENTIFICATION KEY AND ANALYTICAL PARAMETERS**  
**PHASE II ENVIRONMENTAL SITE ASSESSMENT**  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
*TerraNova Partners L.P.*

Sample Location	Sample Date	Sample Identification <sup>(1)</sup>	Sample Interval (mBGS)	Sample Analysis				
				VOCs	Metals and Inorganics	PHCs (F <sub>1</sub> -F <sub>4</sub> )	TCLP VOCs	TCLP Metals and Inorganics
<b>Soil Samples</b>								
MW1	5-Jun-13		0.3-0.8	✓	✓	✓	✓	
MW2	5-Jun-13		1.5-2.3	✓	✓	✓	✓	
MW3	5-Jun-13	S-81278-060513-PL-MW3-S-6.5'	1.5-2.0	✓	✓	✓	✓	
MW4	5-Jun-13	S-81278-060513-PL-MW4-4-6'	1.2-1.8	✓	✓	✓	✓	
MW5	5-Jun-13	S-81278-060513-PL-MW5-2.5-5'	0.8-1.5	✓	✓	✓	✓	
MW5 (Field Duplicate)	5-Jun-13	S-81278-060513-PL-DUP	0.8-1.5	✓	✓	✓	✓	
MW5	5-Jun-13	S-81278-060513-PL-MW5-8-9.5'	2.4-2.9	✓	✓	✓	✓	
MW6	6-Jun-13	S-81278-060613-PL-MW6-0.5-2'	0.2-0.6	✓	✓	✓	✓	
Soil Drumm	6-Jun-13	S-81278-060613-PL-TCLP	-				✓	✓
<b>Groundwater Samples</b>								
MW1	14-Jun-13	GW-81278-061413-NB-MW1	-	✓	✓	✓	✓	
MW2	14-Jun-13	GW-81278-061413-NB-MW2	-	✓	✓	✓	✓	
MW3	14-Jun-13	GW-81278-061413-NB-MW3	-	✓	✓	✓	✓	
MW3 (Field Duplicate)	14-Jun-13	GW-81278-061413-NB-MW99	-	✓	✓	✓	✓	
MW3	26-Jun-13	GW-81278-062613-NB-MW3	-	✓	✓	✓	✓	
MW3 (Field Duplicate)	26-Jun-13	GW-81278-062613-NB-DUP1	-	✓	✓	✓	✓	
MW4	14-Jun-13	GW-81278-061413-NB-MW4	-	✓	✓	✓	✓	
MW5	14-Jun-13	GW-81278-061413-NB-MW5	-	✓	✓	✓	✓	
MW6	14-Jun-13	GW-81278-061413-NB-MW6	-	✓	✓	✓	✓	

**Notes:**

- <sup>(1)</sup> Complete Sample Identification for S-81278-060513-PL-MW2-5-7.5': S stand for soil (W stands for groundwater); next 5 digits (81278) is the CRA project number; next 6 digits represent the date (mm/dd/yyyy); next characters are the initials of the field technician; next digits signify the sample location; next digits are the sample ID
- VOCs Volatile Organic Compounds
- PHCs Petroleum Hydrocarbons
- TCLP Toxicity Leachate Characterization Procedure

TABLE 2

**MONITORING WELL COMPLETION DETAILS**  
**PHASE II ENVIRONMENTAL SITE ASSESSMENT**  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
 TerraNova Partners L.P.

Well No.	Completion Date	Ground Elevation (mASD)	Top of Riser Elevation (mASD)	Total Depth Drilled (mBGS)	Screened Interval (mASD)		Sand Pack Interval (mBGS)		Screened Geologic Material		MOE Well Tag No.			
					Top	Bottom	Top	Bottom	Top	Bottom				
MW1	05-Jun-13	99.91	99.78	6.10	2.44	5.49	97.47	94.42	2.13	5.49	97.78	94.42	Clayey silt till	A148728
MW2	05-Jun-13	99.88	99.77	6.10	3.05	6.10	96.83	93.78	2.74	6.10	97.14	93.78	Clayey silt till	A148800
MW3	05-Jun-13	99.81	99.70	6.10	3.05	6.10	96.76	93.71	2.74	6.10	97.07	93.71	Silty sand/clayey silt till	A148691
MW4	05-Jun-13	100.00	99.90	7.62	4.57	7.62	95.43	92.38	4.27	7.62	95.73	92.38	Clayey silt till	A148727
MW5	05-Jun-13	99.99	99.91	6.10	3.05	6.10	96.94	93.89	2.74	6.10	97.25	93.89	Clayey silt till	A148726
MW6	06-Jun-13	99.99	99.91	4.88	3.35	4.88	96.64	95.11	3.05	4.88	96.94	95.11	Clayey silt till	A148716

Notes:

- mASD metres Above Site Datum. Reference point taken to be the top of the concrete floor slab on the north side of the southeast bay door.
- mBGS metres Below Ground Surface



**TABLE 3**  
**GROUNDWATER ELEVATIONS**  
**PHASE II ENVIRONMENTAL SITE ASSESSMENT**  
**104 OAKDALE ROAD, TORONTO, ONTARIO**  
*TerraNova Partners LP*

Well No.	Ground Elevation (mASD)	Reference Elevation <sup>(1)</sup> (mASD)	Groundwater Elevation		
			June 26, 2013		
			(mBTOR)	(mASD)	(mBGS)
MW1	99.91	99.78	1.36	98.42	1.49
MW2	99.88	99.77	1.25	98.52	1.36
MW3	99.81	99.70	2.53	97.17	2.64
MW4	100.00	99.90	1.66	98.24	1.76
MW5	99.99	99.91	2.08	97.83	2.17
MW6	99.99	99.91	2.54	97.37	2.62

**Notes:**

- <sup>(1)</sup> Reference elevation taken from top of riser pipe
- mASD metres Above Site Datum. Reference point taken to be the top of the concrete floor slab on the north side of the southeast bay door.
- mBTOR metres Below Top of Riser
- mBGS metres Below Ground Surface

TABLE 4a

**SUMMARY OF MONITORING WELL PURGING ACTIVITIES (WATERRA)  
PHASE II ENVIRONMENTAL SITE ASSESSMENT  
104 OAKDALE ROAD, TORONTO, ONTARIO  
TerraNova Partners L.P.**

Well No.	Date	Well Volume (Litres)	Volume Removed (Litres)	pH	Conductivity ( $\mu\text{S/cm}$ )	Temperature ( $^{\circ}\text{C}$ )	Colour	Odour	Comments
MW1	13-Jun-13	7.0	7.0	6.72	1,632	14.9	clear	n.d.o.	-
			14.0	6.96	1,933	14.2	clear	n.d.o.	-
			21.0	7.23	1,591	14.2	clear	n.d.o.	dry after 3 well volumes
MW2	13-Jun-13	10.0	10.0	7.01	2,501	15.8	grey	n.d.o.	-
			20.0	6.91	2,535	14.1	light brown	n.d.o.	slightly silty
			30.0	7.25	2,557	15.3	light brown	n.d.o.	dry after 3 well volumes
MW3	13-Jun-13	7.0	7.0	7.72	2,320	16.0	brown	n.d.o.	silty
			14.0	7.25	2,395	14.7	brown	n.d.o.	silty
			21.0	7.26	2,396	14.3	brown	n.d.o.	silty, dry after 3 well volumes
MW4	13-Jun-13	10.0	10.0	7.30	1,635	17.6	clear	n.d.o.	-
			20.0	7.24	1,547	17.1	clear	n.d.o.	-
			30.0	7.45	1,550	18.3	clear	n.d.o.	dry after 3 well volumes
MW5	13-Jun-13	5.0	5.0	6.89	>3999	17.2	light brown	n.d.o.	-
			10.0	6.90	>3999	16.2	light brown	n.d.o.	-
			15.0	7.09	>3999	17.8	light brown	n.d.o.	dry after 3 well volumes
MW6	13-Jun-13	1.5	1.5	7.16	2,857	20.9	light brown	n.d.o.	slightly silty
			3.0	7.14	2,871	21.1	light brown	n.d.o.	slightly silty, dry after 2 well volumes
			4.5	7.29	3,051	20.1	light brown	n.d.o.	slightly silty, dry after 3 well volumes

## Notes:

$\mu\text{S/cm}$  microSiemens per centimeter  
n.d.o. No detectible odour

TABLE 4b

SUMMARY OF MONITORING WELL PURGING ACTIVITIES (LOW-FLOW)  
 PHASE II ENVIRONMENTAL SITE ASSESSMENT  
 104 OAKDALE ROAD, TORONTO, ONTARIO  
*TerraNova Partners L.P.*

Well No.	Date	Time (min)	Pumping Rate (mL/min)	pH	Conductivity (mS/cm)	Temperature (°C)	ORP (mV)	DO (mg/L)	Turbidity (NTU)
MW3	26-Jun-13	5	150	6.78	2.52	21.96	-5	7.12	0.0
		10	150	6.81	2.58	20.99	-8	6.67	0.0
		15	150	6.81	2.63	19.59	-11	5.88	0.0
		20	150	6.82	2.63	19.75	-13	4.92	0.0
		25	150	6.83	2.64	19.40	-12	4.10	0.0

## Notes:

min	minute	mV	millivolts
mL/min	millilitres per minute	DO	Dissolved Oxygen
mS/cm	milliSiemens per centimetre	mg/L	milligrams per litre
ORP	Oxidation/Reduction Potential	NTU	Nephelometric Turbidity Unit







TABLE 6  
SUMMARY OF GROUNDWATER ANALYTICAL RESULTS  
PHASE II ENVIRONMENTAL SITE ASSESSMENT  
160 MONAGHAN ROAD  
MISSISSAUGA, ONTARIO  
Trenches F1 through F17

Parameter	Sample Location:		MW1 GW41278-06113-NB-MW1 6/14/2013	MW2 GW41278-06113-NB-MW2 6/14/2013	MW3 GW41278-06113-NB-MW3 6/14/2013	MW4 GW41278-06113-NB-MW4 6/14/2013	MW5 GW41278-06113-NB-MW5 6/14/2013	MW6 GW41278-06113-NB-MW6 6/14/2013	MW7 GW41278-06113-NB-MW7 6/14/2013	MW8 GW41278-06113-NB-MW8 6/14/2013	MW9 GW41278-06113-NB-MW9 6/14/2013	MW10 GW41278-06113-NB-MW10 6/14/2013	MW11 GW41278-06113-NB-MW11 6/14/2013	MW12 GW41278-06113-NB-MW12 6/14/2013	MW13 GW41278-06113-NB-MW13 6/14/2013	MW14 GW41278-06113-NB-MW14 6/14/2013	MW15 GW41278-06113-NB-MW15 6/14/2013	MW16 GW41278-06113-NB-MW16 6/14/2013	MW17 GW41278-06113-NB-MW17 6/14/2013	
	Sample ID#	Sample Date																		
As (digested)	3000		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Barium (digested)	100		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Benzene (digested)	2000		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Bromobenzene (digested)	10		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Chlorobenzene (digested)	3.7		ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)	ND(0.10)
Chromium VI (digestion)	110		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Cadmium (digested)	10		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Cobalt (digested)	25		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Copper (digested)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Lead (digested)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Manganese (digested)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Mercury	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Molybdenum (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Nickel (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Selenium (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Silver (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Vanadium (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Thallium (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Uranium (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Zinc (digestion)	2.5		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Perfluorooctyl sulfonates	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Pentachlorobiphenyls	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Pentachlorodibenzofurans	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Pentachlorodibenzodioxins	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Pentachloroethoxy biphenyls	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)
Polycyclic aromatic hydrocarbons (PAHs)	100		ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)	ND(0.50)

Note:  
 All results and sample IDs are in µg/L, unless otherwise indicated.  
 In Ontario Ministry of the Environment (MDEQ), "Soil, Ground Water and Sediment Samples for Use Under Part XV.1 of the Environmental Protection Act", April 15, 2011.  
 Table 3: Full Depth Concentration Conditions Standards for a Non-Flammable Ground Water Contaminant, All Types of Property Use, Medium to Fine Textured Soils.  
 MW1) High level of groundwater detection limit indicated in brackets.  
 MW2) Concentration above 2011 MDEQ Standard.

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

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

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

Proceedings commenced at TORONTO

**THIRD REPORT OF  
RICHTER ADVISORY GROUP INC.  
IN ITS CAPACITY AS  
MONITOR OF  
KK PRECISION INC.**

**CHAITONS LLP**  
5000 Yonge Street, 10<sup>th</sup> Floor  
Toronto, Ontario  
M2N 7E9

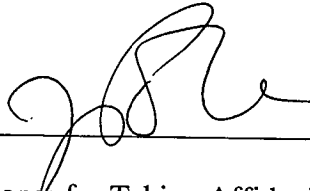
**Sam Rappos**  
LSUC #51399S  
Tel: (416) 218-1137  
Fax: (416) 218-1837  
E-mail: samr@chaitons.com

**Lawyers for Richter Advisory Group Inc.**



**TAB J**

Exhibit "J" to the Affidavit of Garth Wheldon,  
sworn before me this 5<sup>th</sup> day of November, 2014.

A handwritten signature in black ink, appearing to read 'JL Poole', is written over a horizontal line.

Commissioner for Taking Affidavits, etc.

**Jennifer Lauren Poole,  
a Commissioner, etc., Province of  
Ontario, while a Student-at-Law.  
Expires March 14, 2016.**

## SETTLEMENT AGREEMENT AND MUTUAL RELEASE

THIS Settlement Agreement and Mutual Release is dated the 17<sup>th</sup> day of September, 2014.

**BETWEEN:**

**KK PRECISION INC. (the "Company")**

OF THE FIRST PARTY

-and-

**2215225 ONTARIO INC. (the "Landlord")**

OF THE SECOND PARTY

**WHEREAS**

- A. On September 1, 2011, the Company entered into a lease agreement (the "**Lease**") with 104 Oakdale Acquisition Corp. (the "**Prior Landlord**") for the lease of the premises known municipally as 104 Oakdale Road, Toronto, Ontario (the "**Premises**"). The Lease was amended by an amendment to lease (the "**First Lease Amendment**"), entered into as of February 1, 2013, and amended further by a letter agreement effective as of May 1, 2014 (the "**Letter Agreement**"), together with the First Lease Amendment and the Lease, the "**Lease Agreements**";
- B. On May 30, 2014, the Ontario Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting the Company protection pursuant to the *Companies; Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**");
- C. On June 2, 2014, the Landlord acquired from the Prior Landlord, all of the Prior Landlord's rights and interests in and to the Premises and the Lease Agreements, including the \$100,000 security deposit (the "**Security Deposit**") advanced by the Company to the Prior Landlord pursuant to the Letter Agreement;
- D. Section 2.3 of the Lease creates an obligation on the Company to perform certain remediation work to the Premises and to vacate and surrender to the Landlord the Leased Premises in the same state of repair and cleanliness as they were in at the commencement of the term, reasonable wear and tear excepted (the "**Restoration Obligations**");
- E. In accordance with the Lease Agreements, the term for the Lease ends on September 30, 2014 (the "**Expiry of the Term**");
- F. A dispute between the parties has developed during the CCAA proceedings regarding the scope of the Restoration Obligation (the "**Restoration Dispute**");

- G. The Company and the Landlord have agreed to settle the Restoration Dispute on the basis set out herein:

**NOW THEREFORE IN CONSIDERATION** of the payment by the Company of the Settlement Payment (defined below), the receipt and sufficiency of which are hereby acknowledged, the Parties covenant and agree as follows:

1. The Parties acknowledge and confirm that the foregoing recitals are true in substance and fact and are hereby incorporated into this Agreement.
2. The Company shall pay the Landlord the sum of \$100,000 plus HST, on or before September 19, 2014 (the "**Settlement Payment**"). In addition to the Settlement Payment the Landlord shall be entitled to retain the Security Deposit.
3. The Landlord warrants and represents that on payment of the Settlement Payment by the Company, the Landlord shall agree to release the Company from all obligations, liabilities, damages or claims of any nature and kind, including the Restoration Obligations, and, for greater certainty, including, any work related to the infill of the pits or other restoration work previously agreed to by the Company or for which the Company would otherwise be liable at law. However, subject to what follows, such release does not release or alter the obligations of the Company or Infinity Asset Solutions Inc. ("**Infinity**") from the requirement to safely remove any machines and other equipment from the Premises or the obligation to repair any damage to the Premises from the date hereof due to the removal of such items. After the Expiry of the Term, the obligation, if any, on the part of the Company to safely remove any machines and other equipment from the Premises or the obligation to repair any damage to the Premises due to the removal of such items shall also terminate at the Expiry of the Term.
4. The Landlord acknowledges that the payment of the Settlement Payment does not constitute an admission of liability by the Company with respect to the Restoration Obligations.
5. The Landlord hereby remises, releases and forever discharges the Company, together with all of their respective predecessors in interest, affiliates, associates, holding bodies, corporate, subsidiaries, heirs, executors, administrators, officers, directors, employees, agents, successors and assigns, partners, shareholders, insurers and subrogees (collectively, the "**Company Releasees**"), of and from all manner of actions, causes of action, costs, suits, debts, dues, sums of money, duties, accounts, covenants, contracts, bonds, damages or other security, claims, liens and demands whatsoever in law or in equity, which the Landlord ever had, now has, or hereafter may have in connection with or arising from, by reason of, or in any way related to the Restoration Obligations or the Lease Agreements.
6. The Company hereby remises, releases and forever discharges the Landlord, together with all of their respective predecessors in interest, affiliates, associates, holding bodies, corporate, subsidiaries, heirs, executors, administrators, officers, directors, employees, agents, successors and assigns, partners, shareholders, insurers and subrogees

(collectively and together with the Company Releasees, the “**Releasees**”), of and from all manner of actions, causes of action, costs, suits, debts, dues, sums of money, duties, accounts, covenants, contracts, bonds, damages or other security, claims, liens and demands whatsoever in law or in equity, which the Company ever had, now has, or hereafter may have in connection with or arising from, by reason of, or in any way related to the Lease Agreements.

7. No Releasee shall make any claim or take any proceedings (including any crossclaim, counterclaim or third party action) against any other person, corporation, association, partnership or any other entity which might claim contribution or indemnity from any other Releasee under the provisions of any statute or otherwise.
8. The Parties acknowledge and represent that the terms of this Release are fully understood and that this Release is given voluntarily for the purpose of making a full and final compromise, adjustment and settlement of the Restoration Obligations and the Lease Agreements.
9. The Parties acknowledge and agree that there are no representations, warranties, terms, conditions, undertakings or agreements whatsoever, expressed, implied or otherwise, which have induced either Party to execute and deliver this Release and that this Release is not conditional upon the accuracy, truth, performance or observance of any representations, warranties, terms, conditions, undertakings or agreements whatsoever unless specifically referred to herein.
10. The Parties agree that, in the event that any provision or portion of any provision of this Release shall be held to be invalid, illegal or unenforceable under any applicable law, such invalidity, illegality or unenforceability shall not affect the validity and enforceability of this Release as a whole against any other parties other than the party in respect of whom the provision or portion of any provision of this Release was held to be invalid, illegal or unenforceable.
11. To the extent the Landlord and Infinity enter into any agreement or arrangement regarding the use of the Premises after the Expiry of the Term, the Landlord hereby agrees and confirms that any such agreement or arrangement shall not create any obligations of any nature and kind against the Company or any of the Company Releasees.
12. The Landlord acknowledges and represents to the Company that it has not assigned any of the rights hereby released.
13. This Release shall enure to the benefit of the Releasees and their respective successors and assigns and anyone claiming under or through them, and shall be binding upon the Landlord and its respective successors and assigns.
14. The Release shall be governed by the laws of the Province of Ontario and shall be binding on the undersigned and their legal representatives, successors, assigns, subsidiaries and affiliates. The Parties irrevocably attorn to the jurisdiction of the courts

of the Province of Ontario and agree that any matters related to this Release should be exclusively dealt with in such court.

15. This Settlement Agreement and Mutual Release may be entered into by the Parties in two or more counterparts and shall be considered validly executed and delivered if received by telecopier, facsimile or e-mail.

EXECUTED this 17<sup>th</sup> day of September, 2014.

**KK PRECISION INC.**

  
\_\_\_\_\_  
**Per:**

I have the authority to bind the company

**2215225 ONTARIO INC.**

\_\_\_\_\_  
**Per:**

I have the authority to bind the company

The Bank of Montreal acknowledges the terms of the forgoing agreement and consents to the Company's release of any claim and the Security Deposit. The Bank of Montreal further agrees and consents to the Company making the Settlement Payment to the Landlord.

**BANK OF MONTREAL**

\_\_\_\_\_  
**Per:**

of the Province of Ontario and agree that any matters related to this Release should be exclusively dealt with in such court.

15. This Settlement Agreement and Mutual Release may be entered into by the Parties in two or more counterparts and shall be considered validly executed and delivered if received by telecopier, facsimile or e-mail.

EXECUTED this 17<sup>th</sup> day of September, 2014.

**KK PRECISION INC.**

\_\_\_\_\_  
Per:

I have the authority to bind the company

**2215225 ONTARIO INC.**



\_\_\_\_\_  
Per: T. TERSIGNI  
PRESIDENT

I have the authority to bind the company

The Bank of Montreal acknowledges the terms of the forgoing agreement and consents to the Company's release of any claim and the Security Deposit. The Bank of Montreal further agrees and consents to the Company making the Settlement Payment to the Landlord.

**BANK OF MONTREAL**

\_\_\_\_\_  
Per:

of the Province of Ontario and agree that any matters related to this Release should be exclusively dealt with in such court.

15. This Settlement Agreement and Mutual Release may be entered into by the Parties in two or more counterparts and shall be considered validly executed and delivered if received by telecopier, facsimile or e-mail.

EXECUTED this 17<sup>th</sup> day of September, 2014.

**KK PRECISION INC.**

\_\_\_\_\_  
Per:

I have the authority to bind the company


**2215225 ONTARIO INC.**

\_\_\_\_\_  
Per:

I have the authority to bind the company

The Bank of Montreal acknowledges the terms of the forgoing agreement and consents to the Company's release of any claim and the Security Deposit. The Bank of Montreal further agrees and consents to the Company making the Settlement Payment to the Landlord.

**BANK OF MONTREAL**

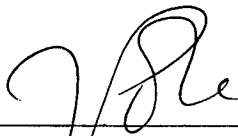
  
\_\_\_\_\_  
Per:

Robert Kiefer  
Senior Account Manager



**TAB K**

Exhibit "K" to the Affidavit of Garth Wheldon, sworn  
before me this 5<sup>th</sup> day of November, 2014.



---

Commissioner for Taking Affidavits, etc.

Court File No.

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

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

Applicant

**AFFIDAVIT OF GEORGE KOULAKIAN  
(sworn May 28<sup>th</sup>, 2014)**

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

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

**THE APPLICATION**

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

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

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

### **CORPORATE OVERVIEW**

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

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

## **BACKGROUND AND BUSINESS OPERATIONS**

### **The Company**

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

### **Employees**

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

## **Financial Position**

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

## **INDEBTEDNESS**

### **Secured Debt**

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

14. As security for the Company's obligations to the Secured Lenders under the Credit Agreements, the Company granted the following security in favour of the Secured Lenders:

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

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

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

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

Outstanding Loan:	\$1,400,694.22
Interest:	\$26,335.68
<b>Total Outstanding:</b>	<b>\$1,427,029.90</b>

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

Outstanding Loan:	\$5,670,000.00
Interest:	\$99,220.23
<b>Total Outstanding:</b>	<b>\$5,769,220.23</b>

Subordinate Credit Facilities

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

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

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

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

**Unsecured Debt**

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

**The Lease**

19. The Company currently leases the Premises. This space is approximately 26,000 square feet of manufacturing and office space.

20. The landlord in respect of the Premises is 104 Oakdale Acquisition Corp. (the "**Landlord**"). The Company's occupation of the Premises was and continues to be governed by a lease agreement dated as of September 1, 2011 (as amended) (the "**Lease**"). The Lease expired on April 30, 2014. However, the Company and the Landlord (with the consent of the Secured Lenders) have recently agreed to extend the terms of the Lease pursuant to a Letter Agreement dated May 1, 2014 (the "**Extension**").



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

### **EVENTS LEADING TO THE PRESENT APPLICATION**

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

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

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

## NECESSITY OF APPLICATION

### **Secured Lenders Demand**

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

## **Sales Process**

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

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

- (e) approached Rolls-Royce about a possible acquisition of KKP, or a partnership with one of the interested bidders.

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

33. Discussions still continue with some of the Interested Purchasers.

#### **BENEFITS OF THE PROPOSED RELIEF**

34. In the short term, I believe that the stability brought by obtaining the relief sought herein, and in particular a stay of proceedings and the appointment of the Monitor, would provide the foundation for the Company to take the following initiatives:

- (a) preserve its existing cash reserves for essential operations only;
- (b) continue operations in a transparent and controlled fashion to ensure that value is maximized for all stakeholders;
- (c) preserve recovery on accounts receivable and avoid any set-off claims;
- (d) retention of employees for a defined period of time; and
- (e) administer a controlled liquidation process (a "**CCAA Sales Process**") in the context of a CCAA proceeding within which negotiations and discussions can take place, all with a view to achieving the highest realizable price for the Company's assets.

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

### **THE MONITOR**

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

### **RELIEF SOUGHT**

#### **Stay of Proceedings**

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

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

### **Administration Charge**

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

### **Directors and Officers Charge**

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

### **Accommodation Agreement**

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

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

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

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

## **KERP**

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

## **Advisory Agreement**

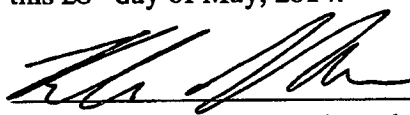
52. MVM Industrial Services Limited is a company incorporated pursuant to the OBCA ("**MVM Industrial**"). Garth Wheldon is an officer and director of MVM Industrial.
53. MVM Industrial entered into an Advisory Services Agreement dated May 23, 2014 with the Company to provide strategic advice and services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



- (a) MVM Industrial assisting and advising the Company with issues relating to the Company's operations, including a possible sale and/or wind-down;
- (b) compensation payable to MVM Industrial by the Company in the amount of \$12,000 on a bi-weekly basis; and
- (c) a bonus payment based on the realization of net liquidation proceeds.

55. The Advisory Agreement is a necessary and appropriate component of the proposed CCAA proceedings.
56. I believe the most feasible and viable option for the Company to best serve all of its stakeholders is through a CCAA proceeding. The protection afforded by the CCAA will allow the Company the opportunity it needs to maximize the value of its assets.
57. I make this affidavit in support of the Application by the Company under the provisions of the CCAA for an order declaring that KKP a corporation to which the CCAA applies, appointing Richter as monitor, granting a stay of proceedings on the terms set out in the draft order, dispensing with service of this application, and granting the charges and such other relief as set out in the draft form of order.

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

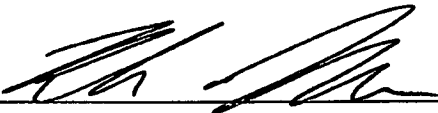
  
\_\_\_\_\_  
Commissioner for Oaths in and for the  
Province of Ontario

**Christopher Blake Moran**

  
\_\_\_\_\_  
**GEORGE KOULAKIAN**

# TAB A

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



---

Commissioner for Taking Affidavits, etc.

**Christopher Blake Moran**

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

Province of Ontario  
Ministry of Government Services

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

## LIST OF CURRENT BUSINESS NAMES REGISTERED BY A CORPORATION

Ontario Corporation Number  
1858281

CORPORATION NAME  
KK PRECISION INC.

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

### NO CURRENT BUSINESS NAMES ON FILE

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

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

Request ID: 016425703  
Transaction ID: 54158226  
Category ID: UN/E

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:50:13  
Page: 1

## CORPORATION DOCUMENT LIST

**Ontario Corporation Number**  
1858281

**Corporation Name**  
KK PRECISION INC.

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

THIS REPORT SETS OUT ALL DOCUMENTS FOR THE ABOVE CORPORATION WHICH HAVE BEEN FILED ON OR AFTER JUNE 27, 1892, AND RECORDED IN THE ONTARIO BUSINESS INFORMATION SYSTEM AS AT THE DATE AND TIME OF PRINTING. ADDITIONAL HISTORICAL INFORMATION MAY EXIST ON MICROFICHE

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

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

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 1

## CORPORATION PROFILE REPORT

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

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 2

## CORPORATION PROFILE REPORT

Ontario Corp Number	Corporation Name
1858281	KK PRECISION INC.

Corporate Name History	Effective Date
KK PRECISION INC.	2011/09/01

Current Business Name(s) Exist:	NO
Expired Business Name(s) Exist:	NO

### Amalgamating Corporations

Corporation Name	Corporate Number
KKP ACQUISITION CORP.	2294539
PRECINDA INC.	1513497
KK PRECISION INC.	913292

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 3

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

JAMES  
B.  
BAKER

Address

531 EAST PALACE DRIVE

SANTA FE  
NEW MEXICO  
UNITED STATES OF AMERICA 87501

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:  
Name (Individual / Corporation)

JAMES  
B.  
BAKER

Address

531 EAST PALACE DRIVE

SANTA FE  
NEW MEXICO  
UNITED STATES OF AMERICA 87501

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

CHAIRMAN

Resident Canadian

N



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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 4

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

W.  
CRAIG  
BAKER

Address

10 NORTHFIELD ROAD

SIGNAL MOUNTAIN  
TENNESSEE  
UNITED STATES OF AMERICA 37377

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:  
Name (Individual / Corporation)

W.  
CRAIG  
BAKER

Address

10 NORTHFIELD ROAD

SIGNAL MOUNTAIN  
TENNESSEE  
UNITED STATES OF AMERICA 37377

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

SECRETARY

Resident Canadian

N

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 5

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

MIKE  
D.  
BROOKSHIRE

Address

1640 REPUBLIC CENTRE  
633 CHESTNUT STREET  
  
CHATTANOOGA  
TENNESSEE  
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:  
Name (Individual / Corporation)

WILLIAM  
DUBE JR.

Address

491 FAIRLAWN AVENUE  
  
TORONTO  
ONTARIO  
CANADA M5M 1V3

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 6

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

WILLIAM  
E.  
DUBE, JR

Address

491 FAIRLAWN AVENUE  
  
TORONTO  
ONTARIO  
CANADA M5M 1V3

Date Began

2012/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

Administrator:  
Name (Individual / Corporation)

WILLIAM  
E.  
DUBE, JR

Address

491 FAIRLAWN AVENUE  
  
TORONTO  
ONTARIO  
CANADA M5M 1V3

Date Began

2012/09/18

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

PRESIDENT

Resident Canadian

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 7

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

J.  
MARK  
JONES

Address

1640 REPUBLIC CENTRE  
633 CHESTNUT STREET  
  
CHATTANOOGA  
TENNESSEE  
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

Administrator:  
Name (Individual / Corporation)

GEORGE  
KOULAKIAN

Address

21 KIRKBRIDE CRESCENT  
  
MAPLE  
ONTARIO  
CANADA L6A 2J5

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

Y

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 8

## CORPORATION PROFILE REPORT

<b>Ontario Corp Number</b>	<b>Corporation Name</b>	
1858281	KK PRECISION INC.	
<b>Administrator: Name (Individual / Corporation)</b>	<b>Address</b>	
GEORGE KOULAKIAN	21 KIRKBRIDE CRESCENT  MAPLE ONTARIO CANADA L6A 2J5	
<b>Date Began</b>	<b>First Director</b>	
2011/09/01	NOT APPLICABLE	
<b>Designation</b>	<b>Officer Type</b>	<b>Resident Canadian</b>
OFFICER	VICE-PRESIDENT	Y

<b>Administrator: Name (Individual / Corporation)</b>	<b>Address</b>	
ANDREW LEE	874 WHITE CLOVER WAY  MISSISSAUGA ONTARIO CANADA L5V 1C6	
<b>Date Began</b>	<b>First Director</b>	
2011/09/01	NOT APPLICABLE	
<b>Designation</b>	<b>Officer Type</b>	<b>Resident Canadian</b>
DIRECTOR		Y

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 9

## CORPORATION PROFILE REPORT

Ontario Corp Number

1858281

Corporation Name

KK PRECISION INC.

Administrator:  
Name (Individual / Corporation)

ANDREW  
LEE

Address

874 WHITE CLOVER WAY  
  
MISSISSAUGA  
ONTARIO  
CANADA L5V 1C6

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

OFFICER

Officer Type

CHIEF FINANCIAL OFFICER Y

Resident Canadian

Administrator:  
Name (Individual / Corporation)

G.H.  
PATTEN  
PETTWAY JR

Address

1640 REPUBLIC CENTRE  
633 CHESTNUT STREET  
  
CHATTANOOGA  
TENNESSEE  
UNITED STATES OF AMERICA 37450

Date Began

2011/09/01

First Director

NOT APPLICABLE

Designation

DIRECTOR

Officer Type

Resident Canadian

N

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 10

## CORPORATION PROFILE REPORT

**Ontario Corp Number**

1858281

**Corporation Name**

KK PRECISION INC.

**Administrator:  
Name (Individual / Corporation)**

GARTH  
A.  
WHELDON

**Address**

277 LAKEVIEW AVENUE  
  
BURLINGTON  
ONTARIO  
CANADA L7N 1Y7

**Date Began**

2011/09/01

**First Director**

NOT APPLICABLE

**Designation**

DIRECTOR

**Officer Type**

**Resident Canadian**

Y

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

Province of Ontario  
Ministry of Government Services

Date Report Produced: 2014/05/06  
Time Report Produced: 15:49:52  
Page: 11

# CORPORATION PROFILE REPORT

Ontario Corp Number	Corporation Name
1858281	KK PRECISION INC.

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

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

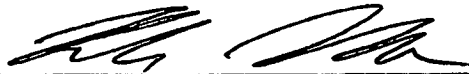
ADDITIONAL HISTORICAL INFORMATION MAY EXIST ON MICROFICHE.

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



**TAB B**

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

A handwritten signature in black ink, appearing to read "C. Moran", is written above a solid horizontal line.

Commissioner for Taking Affidavits, etc.

**Christopher Blake Moran**

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

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**Contents**

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



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

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

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## Independent Auditor's Report

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### To the Shareholders of KK Precision Inc.

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

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

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

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Markham, Ontario  
January 30, 2013

**KK Precision Inc.  
Balance Sheet**

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

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

**KK Precision Inc.**  
**Statement of Operations and Deficit**

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

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

**KK Precision Inc.**  
**Statement of Cash Flows**

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

**Cash provided by (used in)**

**Operating activities**

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

**Changes in non-cash working capital balances**

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

**Investing activities**

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

**Financing activities**

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

Net change in cash	(1,020,184)	446,248
Cash, beginning of year	446,248	-
<b>Cash (bank indebtedness), end of year</b>	<b>\$ (573,936)</b>	<b>\$ 446,248</b>

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

---

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

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**1. Summary of Significant Accounting Policies**

- a. Nature of Activities**                      KK Precision Inc. (the "Company") was incorporated on September 1, 2011 under the Ontario Business Corporations Act. The Company is a diversified manufacturer of precision-machined parts and supplier of engineering services for the energy, aerospace, marine and industrial sectors.
- b. Basis of Accounting**                      The financial statements have been prepared using Canadian accounting standards for private enterprises.
- c. Use of Estimates**                         The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.
- d. Revenue Recognition**                      The Company derives revenue principally from the sale of precision-machined components. Revenue is recognized when title to the goods is passed to the customer, normally upon shipment of the goods and when collectibility is reasonably assured.
- e. Goodwill**                                      Goodwill represents the excess of the costs of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment on an annual basis or when an event or circumstance occurs that more likely than not reduces the fair value of goodwill below its carrying amount.



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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

---

**1. Summary of Significant Accounting Policies (continued)**

**f. Inventory**

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

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

**g. Capital Assets**

Capital assets are carried at cost less accumulated amortization.

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

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

**h. Impairment of Long-Lived Assets**

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

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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

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**1. Summary of Significant Accounting Policies (continued)**

- i. Deferred Financing Costs**      Financing costs represent costs incurred by the Company to raise long-term debt. Deferred financing costs are netted against the long term debt and are amortized over the life of the related debt instrument.
- j. Foreign Currency Translation**      Monetary balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary balance sheet items are translated at the exchange rate in effect at the date of transaction. Revenue (sales) and expenses denominated in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in income in the current period.
- k. Income Taxes**      The Company follows the future income tax method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the difference between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of future income tax assets and liabilities is included in income. Future income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the periods in which the assets and liabilities will be recovered. Future income tax assets are recognized when it is more likely than not that they will be realized.
- l. Research and Development Costs and Tax Credits**      The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when the related expenditures are incurred, and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. The Company's claim is subject to audit by Canada Revenue Agency who may allow more than the amount recorded or may disallow all or a portion of the amount recorded.

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

**2. Related Party Transactions**

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

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

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

**3. Inventory**

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

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

**4. Capital Assets**

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

**5. Bank Indebtedness**

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

**6. Government Remittances**

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

**7. Long-Term Debt**

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

Principal payments on long-term debt are as follows:

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

---

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

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**7. Long-Term Debt (continued)**

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

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

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

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

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

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

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

**7. Long-Term Debt (continued)**

(c)

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

**8. Share Capital**

**Authorized**

Unlimited Common shares

**Issued and outstanding**

	2012	2011
9,500,000 Common Shares	\$ 9,500,000	\$ 9,500,000

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

**9. Commitments and Contingencies**

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

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

**10. Income Taxes**

Future income tax assets consist of the following temporary differences:

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

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

2031	\$ 214,800
2032	120,000
	\$ 334,800

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

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

---

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2012**

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**11. Financial Instruments**

**Credit Risk and Economic Concentration**

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

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

**Currency risk**

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

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

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

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

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

**Interest rate risk**

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

**Liquidity risk**

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





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

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**Contents**

<b>Independent Auditor's Report</b>	<b>2-3</b>
<b>Financial Statements</b>	
Balance Sheet	4
Statement of Operations and Deficit	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16

Draft - January 23, 2014

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## Independent Auditor's Report

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To the Shareholders of KK Precision Inc.

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Basis for Qualified Opinion

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

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## Independent Auditor's Report

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### Qualified Opinion

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

### Emphasis of Matter

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

Chartered Accountants, Licensed Public Accountants

Markham, Ontario  
January xx, 2014

Draft - January 2014

**KK Precision Inc.  
Balance Sheet**

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

**Assets**

**Current**

Cash	\$ 476,720	\$ 1,057,988
Accounts receivable	1,930,672	1,374,118
Inventory (Note 4)	1,957,635	125,101
Investment tax credit receivable (Note 12)	105,764	119,789
Prepaid expenses	119,789	80,854
	4,590,580	4,638,361

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

**Liabilities and Shareholders' Equity**

**Current**

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

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

**Shareholders' Equity**

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

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

**KK Precision Inc.**  
**Statement of Operations and Deficit**

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

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

**KK Precision Inc.**  
**Statement of Cash Flows**

For the year ended September 30 2013 2012

	2013	2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$(16,486,970)	(511,957)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Amortization of deferred financing costs	74,002	69,655
Impairment of goodwill	12,748,605	-
Interest capitalized	108,300	91,042
Amortization of capital assets	707,094	752,987
Gain on sale of capital assets	(80,881)	(14,397)
Future income taxes	1,385,074	(126,007)
Changes in non-cash working capital balances		
Accounts receivable	1,127,316	266,160
Inventory	(583,217)	16,838
Prepaid expenses	(38,935)	(1,268)
Investment tax credit receivable	19,337	447,323
Accounts payable and accrued liabilities	(744,029)	(965,792)
Income taxes payable	-	(3,597)
Future income taxes	(223,174)	(338,931)
	(1,987,477)	(317,844)
<b>Investing activities</b>		
Purchase of capital assets	(136,050)	(228,340)
Proceeds from sale of capital assets	91,300	36,000
	(44,750)	(192,340)
<b>Financing activities</b>		
Increase in bank indebtedness	1,192,112	573,936
Repayment of long-term debt	(805,000)	(525,000)
Increase in due to related party	180,000	15,000
Financing costs	(48,165)	-
Proceeds from the issuance of preferred shares	2,000,000	-
Redemption of common shares	(10,000)	-
	2,508,947	63,936
<b>Net change in cash</b>	476,720	(446,248)
Cash, beginning of year	-	446,248
<b>Cash, end of year</b>	\$ 476,720	\$ -

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

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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

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**1. Summary of Significant Accounting Policies**

- a. Nature of Activities** KK Precision Inc. (the "Company") was incorporated on September 1, 2011 under the Ontario Business Corporations Act. The Company is a diversified manufacturer of precision-machined parts and supplier of engineering services for the energy, aerospace, marine and industrial sectors.
- b. Basis of Accounting** The financial statements have been prepared using Canadian accounting standards for private enterprises ("ASPE").
- c. Use of Estimates** The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.
- d. Revenue Recognition** The Company derives revenue principally from the sale of precision-machined components. Revenue is recognized when title to the goods is passed to the customer, normally upon shipment of the goods and when collectibility is reasonably assured.
- e. Goodwill** Goodwill represents the excess of the costs of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment on an annual basis or when an event or circumstance occurs that more likely than not reduces the fair value of goodwill below its carrying amount.
- f. Financial Instruments** Financial instruments are recorded at fair value when acquired or issued and subsequently measured at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

Draft - January 23, 2014



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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

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**1. Summary of Significant Accounting Policies (continued)**

**g. Inventory**

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

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

**h. Capital Assets**

Capital assets are carried at cost less accumulated amortization.

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

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

**i. Impairment of Long-Lived Assets**

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

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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

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**1. Summary of Significant Accounting Policies (continued)**

**j. Deferred Financing Costs**

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

**k. Foreign Currency Translation**

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

**l. Income Taxes**

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

**m. Research and Development Costs and Tax Credits**

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

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**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

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**2. Going Concern**

The financial statements have been prepared on a going concern basis in accordance with Canadian accounting standards for private enterprises, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has experienced significant losses and negative cash flows from operations in the current fiscal year and in previous fiscal years resulting in an accumulated deficit of \$7,825,833 as at September 30, 2013 (2012 - \$1,174,090). As a result, there is some doubt about the appropriateness of the use of the going concern assumption.

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

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

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

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**3. Related Party Transactions**

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

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

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

**4. Inventory**

	2013	2012
Raw materials	\$ 732,707	466,009
Work in progress	1,505,604	947,211
Finished goods	13,893	20,439
	2,252,204	1,433,659
Provision for write-downs to net realizable value	(294,568)	(59,241)
	\$ 1,957,635	\$ 1,374,418

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

**5. Capital Assets**

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Machinery and equipment	\$3,787,045	\$1,122,123	\$2,664,922	\$3,236,756
Office furniture and equipment	212,806	111,399	100,907	87,385
Leasehold improvements	163,222	82,518	100,704	120,644
Paving	6,997	6,831	166	3,377
	\$4,189,570	\$1,322,871	\$2,866,699	\$3,448,162

**6. Bank Indebtedness**

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

**Government Remittances**

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

**8. Long-Term Debt**

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

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

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

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

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

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

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

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

- (c)

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

**9. Redeemable Preferred Shares**

**Authorized**

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

**Issued**

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

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

**10. Share Capital**

**Authorized**

Unlimited Common shares

**Issued**

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

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

**11. Commitments and Contingencies**

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

2014	\$	80,600
2015		6,600
2016		6,600
2017		3,300
	\$	97,100

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

**12. Income Taxes**

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

	2013	2012
Net operating losses carryforward	\$ 440,032	88,771
Property, plant and equipment	(441,032)	(612,978)
Scientific research and experimental development	1,579,176	1,229,777
Intangible assets	108,494	116,660
Other	5,638	6,770
	1,687,000	829,000
Less: valuation allowance	(2,019,900)	-
	\$ (332,900)	\$ 829,000

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

2031	\$ 215,000
2032	120,000
2033	1,328,000
	\$ 1,663,000

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

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

**KK Precision Inc.**  
**Notes to Financial Statements**

**September 30, 2013**

**13. Financial Instruments**

**Credit Risk and Economic Concentration**

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

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

**Currency risk**

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

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

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

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

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

**Interest rate risk**

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



**September 30, 2013**

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**13. Financial Instruments (continued)**

**Liquidity risk**

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

Draft - January 23, 2014



**BALANCE SHEET**

**KK Precision Inc.**

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

**INCOME STATEMENT**

**KK Precision Inc.**

<b>Income Statement C\$000's</b>	<b>Sep Prior Yr</b>	<b>Oct Act</b>	<b>Nov Act</b>	<b>Dec Act</b>	<b>Jan Act</b>	<b>Feb Act</b>	<b>Mar Act</b>	<b>YTD Total Act</b>
Sales	577.611	547.664	547.521	497.205	666.262	632.891	651.678	3,543.221
Material	100.943	176.921	90.150	148.756	96.340	116.761	128.411	757.340
% of sales	17.5%	32.3%	16.5%	29.9%	14.5%	18.4%	19.7%	21.4%
Subcontracting	78.943	54.372	83.492	103.152	111.653	131.735	122.415	606.819
% of sales	13.7%	9.9%	15.2%	20.7%	16.8%	20.8%	18.8%	17.1%
Direct labour	101.998	98.066	93.746	82.870	113.122	91.125	89.794	568.722
Labour premium	16.767	9.246	7.259	6.060	7.962	3.169	20.391	54.087
Indirect labour	35.129	28.863	22.359	35.961	28.922	19.883	10.629	146.617
Vacation Pay								
% of sales	26.6%	24.9%	22.5%	25.1%	22.5%	18.0%	18.5%	21.7%
Inventory adjustments	20.249	(1.728)	10.844	7.495	5.469	(33.247)	(27.932)	(39.098)
Direct costs	354.028	365.740	307.849	384.294	363.469	329.425	343.709	2,094.4862
Direct contribution	223.583	181.924	239.673	112.911	302.793	303.465	307.969	1,448.735
% of sales	38.7%	33.2%	43.8%	22.7%	45.4%	47.9%	47.3%	40.8%
Salaries	94.641	103.190	96.765	109.605	108.232	94.693	106.980	619.465
Small tools	59.096	21.452	21.880	26.239	20.024	14.212	26.506	130.312
Shop supplies	21.788	8.392	15.427	10.317	13.993	13.967	12.678	74.774
Duty & Freight	16.619	22.247	18.918	16.438	16.261	21.465	19.475	114.804
Discounts/Concessions	1.435	0.000	0.000	2.000	0.999	3.600	2.019	8.618
Employee benefits	18.837	17.451	23.125	16.622	23.859	30.738	31.412	143.206
WSIB	5.306	5.018	6.027	3.919	5.059	5.029	5.195	30.247
Insurance	7.408	7.408	7.430	7.430	7.430	7.430	7.430	44.559
Rent	12.185	12.185	12.345	12.185	12.435	12.185	17.685	79.020
Utilities	22.460	10.719	14.880	13.545	17.651	13.931	19.931	90.656
Business & realty tax	5.515	5.515	5.515	5.515	5.515	5.515	5.515	33.089
Machine rental	1.747	1.606	1.552	1.606	1.552	1.445	1.445	9.205
Repairs and maintenance	12.623	17.540	12.610	13.162	10.499	16.778	14.583	85.172
Depreciation factory O/H	56.354	60.100	55.900	55.798	55.463	55.326	55.207	337.794
R&D ITC	(91.630)	(16.500)	(15.000)	(15.704)	(18.390)	(14.122)	(15.598)	(95.314)
Manufacturing incentives								-
Consulting	0.200	0.000	0.200	0.400	3.000	0.200	0.495	4.295
Computer maintenance	4.779	5.105	5.138	5.657	6.406	6.524	3.971	32.801
Security, Cleaning & Other	4.588	2.843	2.471	5.272	7.082	3.390	5.253	26.311
Misc. Revenue	(13.316)	(0.601)	(0.000)	(7.911)	0.000	(0.493)	(1.807)	(10.811)
(Gain) / Loss on sale of Fixed Assets	-	0.000	0.000	0.000	0.000	0.000	0.000	-
Over/Under Applied Burden	4.235	(29.429)	12.963	(55.578)	90.204	(2.362)	(54.798)	(39.000)
Factory overhead	244.871	254.242	298.146	226.514	387.275	289.452	263.575	1,719.204
Gross profit	(21.288)	(72.318)	(58.474)	(113.603)	(84.482)	14.013	44.395	(270.469)
% of sales	-3.7%	-13.2%	-10.7%	-22.8%	-12.7%	2.2%	6.8%	-7.6%
Selling salaries and commissions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Travel	6.539	14.877	5.633	4.652	6.655	2.572	5.706	40.096
Meals & Entertainment	1.833	0.999	1.295	2.368	1.343	0.330	1.299	7.635
Advertising and promotion	0.392	0.305	0.035	0.196	0.035	3.735	0.213	4.518
Depreciation selling & delivery	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Insurance - auto	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Selling and delivery	8.764	16.181	6.963	7.216	8.033	6.637	7.218	52.249
Management salaries & benefits	32.084	34.776	32.084	33.430	20.161	17.853	17.438	155.742
Office salaries	13.356	14.628	13.356	13.992	14.628	12.793	13.664	83.061
Director fees	2.500	2.500	2.500	0.000	0.000	0.000	0.000	5.000
Severance/Termination	5.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Staffing	12.000				20.000	0.000	0.000	20.000
General and office	3.571	3.315	4.074	7.478	4.476	4.439	3.282	27.064
Bad debt expense	(16.159)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Receivables insurance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Consulting	11.538	11.538	11.538	12.162	21.069	12.369	12.369	81.046

**INCOME STATEMENT**

**KK Precision Inc.**

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

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

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

**ONTARIO**

**SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**MOTION RECORD**

(returnable November 13, 2014)

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