Court File No. CV-13-10279-00CL

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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO GROWTHWORKS CANADIAN FUND LTD.
(the "**APPLICANT**")

MOTION RECORD
(For directions for service)

(Returnable January 20, 2015)

January 19, 2015

McCarthy Tétrault LLP
Suite 5300, Toronto Dominion Bank Tower
Toronto ON M5K 1E6

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Lawyers for the Applicant

Court File No. CV-13-10279-00CL

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

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Tab 1

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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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO GROWTHWORKS CANADIAN FUND LTD.

NOTICE OF MOTION
(For directions for service)
(Returnable January 20, 2015)

GrowthWorks Canadian Fund Ltd. (the "**Applicant**" or the "**Fund**") will make a motion before a judge of the Ontario Superior Court of Justice (Commercial List) on January 20, 2015 at 9:30 a.m. or as soon after that time as the motion can be heard at 330 University Avenue, in the City of Toronto.

THE MOTION IS FOR an order:

(a) Setting March [], 2015 at 10:00 a.m. as the hearing time for a motion for the distribution (the "**Distribution Motion**") of the Remaining Proceeds (as defined in the Order Approving Settlement made in these proceedings on December 18, 2014 (the "**Settlement Approval Order**"));

(b) Approving the form of notice of the Distribution Motion to be given to the Minority Shareholders (as defined in the Settlement Approval Order) and the service list including the form and content of a disclosure statement to be served

with the notice (together the "**Notice and Disclosure**") in the form of the Notice and Disclosure attached hereto as Schedule "A";

(c) Setting February 23, 2015 at 5:00 p.m. (Toronto time) as the time by which any objections by any Minority Shareholder to the proposed distribution set out in the Notice and Disclosure must be sent to the FTI Consulting Canada Inc. (the "**Monitor**") to be filed with this Honourable Court and posted on the Monitor's website;

(d) Declaring that the mailing by ordinary mail of the Notice and Disclosure to each Minority Shareholder at the most recent address in the list maintained by Robert Chapman, formerly of McCarthy Tétrault LLP, counsel for the Offeree Shareholders (as defined in the Settlement Approval Order) in respect of the SPA (as defined in the Settlement Approval Order) on or before January 23, 2015 shall be sufficient service of the Distribution Motion; and

(e) such other relief as this Honourable Court may allow.

THE GROUNDS FOR THE MOTION ARE:

1. In these grounds, capitalized terms not defined herein have the meaning set out in the Settlement Approval Order.

2. The Fund is one of the Offeree Shareholders. The AVC Litigation has been settled pursuant to the Minutes of Settlement.

3. As a consequence of the settlement of the AVC Litigation, the Settlement Proceeds of $28 million were paid to AVC and the Remaining Proceeds, amounting to $15,832,358.82 as of

January 2, 2015 plus interest accruing thereafter, continue to be held in escrow until further order of this Court.

4. The Remaining Proceeds are part of the proceeds of sale of all of the shares of Med-Eng. The Offeree Shareholders and the Minority Shareholders, 206 in number, together are all of the former selling shareholders of Med-Eng whose shares were sold to AVC pursuant to the SPA.

5. Prior to the closing of the sale to AVC, the Offeree Shareholders held 78.7% of the Med-Eng shares, collectively and the Minority Shareholders held 21.3%, collectively.

6. The AVC Litigation prevented distribution of any of the Indemnification Escrow Fund held pursuant to the Escrow Agreement such that no distributions could be made until the disposition by judgment or by settlement of the AVC Litigation.

7. The Offeree Shareholders cooperated with each other in the conduct of the AVC Litigation for the benefit of all former selling shareholders of Med-Eng. They expended many hours of their time and attention and substantial amounts of their own funds for payment of professional costs incurred in connection with the AVC Litigation. None of the Minority Shareholders made any contribution to the costs incurred in the conduct of the AVC Litigation.

8. Through the efforts of the Offeree Shareholders, including the Fund, a settlement of the AVC Litigation was negotiated and completed for the benefit of all former selling shareholders of Med-Eng. As a consequence of the settlement, the Remaining Proceeds may be distributed.

9. It is fair and appropriate that the Offeree Shareholders be reimbursed from the Remaining Proceeds for the expenses that they have incurred for the benefit of all former selling shareholders of Med-Eng in conducting the AVC Litigation.

10. The Offeree Shareholders propose that the Remaining Proceeds should be distributed as follows:

(a) To each of the Offeree Shareholders, an amount equal to the professional costs they have incurred or will incur in their efforts to secure the release of the Remaining Proceeds, including fees and disbursements of the respective legal advisors and experts of the Offeree Shareholders and the Monitor incurred in connection with:

(i) The AVC Litigation;

(ii) The claim of AVC in these proceedings including the motion and cross motions brought in respect of the conduct of AVC's claim;

(iii) The negotiation of the settlement of the AVC Litigation;

(iv) The motion in these proceedings for the approval of the settlement;

(v) The implementation of the settlement; and

(vi) This motion, the Distribution Motion and the distribution of the Remaining Proceeds;

(b) After payment of the amounts set out in (a) above, the balance to each of the former selling shareholders of Med-Eng pro rata based on their holdings of Med-Eng shares at the time of the sale of such shares.

11. The Fund relies upon the following:

(a) Section 11.02 and other provisions of the CCAA and the inherent and equitable jurisdiction of this Court;

(b) Rules 1.04, 2.03, 3.02 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and

(c) Such further and other grounds as counsel may advise and this Honourable Court may permit.

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

1. Affidavit of Paul Echenberg sworn December 15, 2014 in support of the motion for the Settlement Approval Order;

2. Affidavit of Donna Parr sworn December 15, 2014 in support of the motion for the Settlement Approval Order;

3. Affidavit of Paul Echenberg sworn January 19, 2015 in support of this motion and exhibits thereto; and

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

January 19, 2015

McCarthy Tétrault LLP
Suite 5300, Toronto Dominion Bank Tower
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Kevin McElcheran LSUC#: 22119H
Tel: (416) 855-0444

Lawyers for the Applicant

TO: ATTACHED SERVICE LIST

Court File No. CV-13-10279-00CL

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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO GROWTHWORKS CANADIAN FUND LTD.
(the "**APPLICANT**")

APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, C. C-36, AS AMENDED

SERVICE LIST
(as of December 15, 2014)

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FASKEN MARTINEAU DuMOULIN LLP 333 Bay Street, Suite 2400 Bay Adelaide Centre, Box 20 Toronto, ON M5H 2T6 **Aubrey E. Kauffman** Email: akauffman@fasken.com Tel.: (416) 868 3538 Fax: (416) 364-7813 **Brad Moore** Email: bmoore@fasken.com Tel.: (416) 865-4550 Fax: (416) 364-7813	**Lawyers for Matrix Asset Management Inc., GrowthWorks Capital Ltd. and GrowthWorks WV Management Ltd.**
DELOITTE RESTRUCTURING INC. 2300 – 360 Main Street Winnipeg, MB R3C 3Z3 **John R. Fritz** Email: jofritz@deloitte.ca Tel: (204)942-0051 Fax: (204)947-2689	**Deloitte Restructuring Inc.** **In its capacity as Monitor of The Puratone Corporation, Niverville Swine Breeders Ltd., and Pembina Valley Pigs Ltd.**

LENCZNER SLAGHT 130 Adelaide St W Suite 2600 Toronto, ON M5H 3P5 **Ronald G. Slaght** Email: rslaght@litigate.com Tel: 416-865-2929 **Eli Lederman** Email: elederman@litigate.com Tel: 416-865-3555 **Ian MacLeod** Email: imacleod@litigate.com Tel: 416-865-2895 Fax: 416-865-9010	**Counsel for Allen-Vanguard Corporation (Court File No. 08-CV-43544)**
CONWAY BAXTER WILSON LLP 1111 Prince of Wales Drive, Suite 401 Ottawa ON K2C 3T2 Fax: 613-688-0271 **Thomas G. Conway** Email: tconway@conway.pro Tel: 613-780-2011 **Christopher J. Hutchison** Email: chutchison@conway.pro Tel: 613-780-2013 **Calina N. Ritchie** Email: critchie@conway.pro Tel: 613-780-2014 **BENNETT JONES LLP** 3400 One First Canadian Place, P.O. Box 130 Toronto, ON M5X 1A4 **Jeffrey S. Leon** Email: leonj@bennettjones.com **Derek J. Bell** Email: belld@bennettjones.com Tel.: (416) 863-1200 Fax: (416) 863-1716	**Counsel for RICHARD L'ABBÉ, 1062455 ONTARIO INC., AND SCHRODER VENTURE MANAGERS (CANADA) LIMITED, et al, the Defendants including Growthworks in the Allen-Vanguard action (File Court No. 08-CV-43544)**

ONTARIO SECURITIES COMMISSION **Mostafa Asadi** Legal Counsel, Investment Funds Branch Ontario Securities Commission 20 Queen Street West, 19th Floor Toronto, Ontario M5H 3S8 Email: masadi@osc.gov.on.ca Tel: (416) 593-8171	**Counsel for Ontario Securities Commission**

Schedule A

SCHEDULE "A"

NOTICE TO FORMER SELLING SHAREHOLDERS OF

MED-ENG SYSTEMS INC.

PLEASE TAKE NOTICE that the Ontario Superior Court of Justice issued an order (the "**Order Approving Settlement**") approving a settlement of certain litigation which is defined in the Order Approving Settlement as the "AVC Litigation". Attached to this notice is a copy of the Order Approving Settlement. Capitalized terms used in this notice have the meanings set out in the Order Approving Settlement.

PLEASE TAKE NOTICE that the AVC Litigation has now been settled in accordance with the Minutes of Settlement. Accordingly, the Settlement Proceeds, totalling $28 million were paid to AVC on December 23, 2014 from the Indemnification Escrow Fund (as defined in the Escrow Agreement) and the Mutual Full and Final Release (as defined in the Minutes of Settlement) has been executed and delivered. The Remaining Proceeds, which totaled $15,832,358.82 as of January 2, 2015, continue to be held in escrow pursuant to the Escrow Agreement.

PLEASE TAKE NOTICE that a hearing will be held on March [], 2015 at 10:00 a.m. at 330 University Avenue, 8th floor, Toronto, Ontario, in the Ontario Superior Court of Justice (Commercial List), to consider the proposal by the Offeree Shareholders that the Remaining Proceeds be distributed as follows:

> To each of the Offeree Shareholders, an amount equal to the professional costs they incurred in their efforts to secure the release of the Remaining Proceeds, including fees and disbursements of the advisors and experts of the Offeree Shareholders incurred in connection with:
>
> (i) The AVC Litigation;
>
> (ii) The claim of AVC in the Fund's proceedings under the *Companies' Creditors Arrangement Act* (the "**CCAA Proceedings**") including the

motion and cross motions brought in respect of the conduct of AVC's claim;

(iii) The negotiation of the settlement of the AVC Litigation;

(iv) The motion in the CCAA Proceedings for the approval of the settlement;

(v) The implementation of the settlement; and

(vi) This motion, the Distribution Motion and the distribution of the Remaining Proceeds;

(b) After payment of the amounts set out in (a) above, the balance to each of the former selling shareholders of Med-Eng pro rata based on their holdings of Med-Eng shares at the time of the sale of such shares.

PLEASE TAKE NOTICE that the total of professional costs included in (a) above is approximately $· and that a description of the professional costs and the basis for the proposed distribution are set out in the Disclosure Statement attached to this Notice.

PLEASE TAKE NOTICE that if you object to such distribution and wish to oppose the granting of the order sought by the Offeree Shareholders at the court hearing on March [], 2015, you must deliver a Notice of Objection on or before 5:00 p.m. (Toronto Time) on February 23, 2015, in the attached form to the following address:

FTI Consulting Canada Inc., GrowthWorks Canadian Fund Ltd. Monitor
TD Waterhouse Tower
79 Wellington Street, West
Suite 2010, P.O. Box 104
Toronto, Ontario, Canada, M5K 1G8
Fax 416-649-8101

Email: growthworkscanadianfundltd@fticonsulting.com

Attn: Paul Bishop and Jodi Porepa

SUMMARY

Objection Deadline: 5:00 p.m. (Toronto Time) on February 23, 2015

Court Hearing: 10:00 a.m. on March [], 1015

Court :Location: 330 University Avenue, 8th Floor, Toronto, Ontario.

DATED this 23rd day of January, 2015

NOTICE OF OBJECTION

I, [insert name of former shareholder of Med-Eng] object to the distribution of the Remaining Proceeds in the manner proposed by the Offeree Shareholders.

The following are my reasons for my objection:

I hereby certify that

1. I am a former shareholder of Med-Eng.

2. I held [insert number of shares] of Med-Eng on the closing of the sale of my shares to Allen-Vanguard Corporation.

3. I have attached any documentation in my possession that supports the reasons for my objection.

Dated:

Signature:

Witness signature:

Witness name:

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

Court File No: CV-13-10279-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

NOTICE OF MOTION
FOR DIRECTIONS FOR SERVICE

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Lawyers for the Applicant

1382543

Tab 2

Court File No. CV-13-10279-00CL

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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO GROWTHWORKS CANADIAN FUND LTD.

(the "**APPLICANT**")

AFFIDAVIT OF Paul Echenberg
(sworn January 19, 2015)

I, Paul Echenberg, of the City of Montreal, MAKE OATH AND SAY:

I. Introduction

1. I am the President and Chief Executive Officer of SACI Associates Canada Inc. ("SACI"), a corporation acting as advisor to SVMCL Management Canada Limited and as a consultant to Schroder Ventures Holdings Limited. These entities are the general partners of limited partnerships and attorney for co-investors which were former shareholders of Med-Eng Systems Inc. (collectively referred to in this affidavit as the "Schroder Fund Entities").

2. I have been one of the individuals instructing counsel in several actions involving Allen-Vanguard Corporation ("Allen-Vanguard"), the Applicant, and certain other former shareholders of Med-Eng Systems In. (“Med-Eng”). These actions have been ongoing since 2008. These actions are:

a. Superior Court File Number 08-CV-43188 (the “Offeree Shareholder Action”);

b. Superior Court File Number 08-CV-43544 (the "Allen-Vanguard Action”).

3. The statements I make in this affidavit are based largely on my personal knowledge. Where I make statements that are not within my personal knowledge, I have identified the source of the information and believed the information is true.

II. The Transaction

4. The plaintiffs in the Offeree Shareholder Action and the defendants in Allen-Vanguard Action are one and the same. They are the former majority shareholders of Med-Eng and are signatories to a Share Purchase Agreement, dated as of August 3, 2007, (the “Share Purchase Agreement”), pursuant to which they and other shareholders of Med-Eng (the “Minority Shareholders”) sold their shares in Med-Eng to Allen-Vanguard for approximately $650 million, $50 million of which was the excess working capital as determined following the close of the transaction. In the Share Purchase Agreement and throughout the interlocutory proceedings in the Offeree Shareholder Action and in the Allen-Vanguard Action they are referred to collectively as the “Offeree Shareholders.” Attached as Exhibit “A” to this affidavit is a copy of the Share Purchase Agreement.

5. The Share Purchase Agreement contains a number of representations and warranties, some of which were made by Med-Eng, and others which were made by the Offeree Shareholders. There are also indemnification provisions in the Share Purchase Agreement, which specifically relate to those representations and warranties.

6. Allen Vanguard, Med-Eng, the Offeree Shareholders, as well as Computershare Trust Company of Canada ("Computershare") as escrow agent, are all parties and signatories to the Escrow Agreement, made as of September 17, 2007 (the "Escrow Agreement"). The Escrow Agreement provides that $40 million from the proceeds of the sale (the "Indemnification Escrow Amount") would be held in escrow as indemnification for proven claims made by Allen-Vanguard against Med-Eng.

7. This $40 million placed in escrow represented approximately 6.2% of the $650 million paid by Allen-Vanguard for all the shares of Med-Eng. The funds in question were otherwise payable to all of the former shareholders of Med-Eng as part of the purchase price paid by Allen-Vanguard. Attached as Exhibit "B" is copy of the Escrow Agreement.

III. Overview of the Litigation

8. Section 4.1(e) of the Escrow Agreement provides as follows:

> *If the Offeree Shareholders deliver an Objection Notice within 30 days of receipt of a Notice of Claim, then the Escrow Agent shall make payment of the non-disputed portion of the Notice of Claim as provided in Section 4.1(d) above and shall make payment with respect to the disputed portion of the Notice of Claim only in accordance with (i) joint written instructions of the Purchaser and the Offeree Shareholders, or (ii) a final non-appealable order of a court of competent jurisdiction. The Escrow Agent shall act on any such court order without further inquiry or question.*

9. In the fall of 2008, pursuant to section 4.1(e), Allen-Vanguard delivered a Notice of Claim on September 9, 2008 and the Offeree Shareholders delivered a Notice of Objection dated October 6, 2008.

10. On November 12, 2008, the Offeree Shareholders issued the statement of claim in the Offeree Shareholder Action, naming as defendants, Allen-Vanguard, Allen-Vanguard Technologies Inc. ("AVTI") and the escrow agent, Computershare. Computershare was named as a defendant because it was a party to the Escrow Agreement, was therefore a necessary and proper party to the action, and would be bound by any final order or judgment. By agreement among all parties, Computershare has not been obliged to defend the action and agrees to be bound by the order of this court with respect to distribution of the amount it continues to hold as escrow agent. The lawyers for the Offeree Shareholders inform me that Computershare is named as a defendant for the sole purpose of ensuring that it is bound by any judgment that may be issued by the court in respect of the Indemnification Escrow Amount.

11. In the Offeree Shareholder Action, the Offeree Shareholders sought a declaration that they are entitled as of December 21, 2008 to payment of the Indemnification Escrow Amount, as the term is defined in the Escrow Agreement. They also sought an order that Computershare distribute to the Offeree Shareholders and the other former shareholders of Med-Eng, the Indemnification Escrow Amount in accordance with the Escrow Agreement.

12. Following the closing of the share purchase transaction in September 2007, Med-Eng amalgamated with Allen-Vanguard Holdings Ltd. and the name of the amalgamated corporation

was subsequently changed to AVTI. In this affidavit, references to Med-Eng and to AVTI are references to the same entity.

13. On December 18, 2008, Allen-Vanguard and AVTI served a statement of defence in the Offeree Shareholder Action.

14. On December 18, 2008, Allen-Vanguard issued the statement of claim in the Allen-Vanguard Action , rather than assert a counterclaim in the Offeree Shareholder Action. The statement of claim was amended by court order in 2013.

15. In its amended statement of claim, Allen-Vanguard sought "indemnification and/or damages for fraudulent and/or negligent misrepresentation and breach of contract in the amount of $650 million, of which $40 million would be distributed to Allen-Vanguard in accordance with the terms of the Escrow Agreement." In essence, Allen-Vanguard sought a refund of the purchase price it paid to acquire Med-Eng, and sought to be paid in part from the Indemnification Escrow Amount as it was funded with a portion of the purchase price.

16. While Allen-Vanguard's amended statement of claim makes allegations of fraudulent and negligent misrepresentation, I am informed by counsel to the Offeree Shareholders that no allegations of fraud or misrepresentations were made against any of the Offeree Shareholders.

17. The lawyers for the Offeree Shareholders inform me that no order has been made to consolidate the Offeree Shareholder Action with the Allen-Vanguard Action (collectively referred to as the "Actions"), although a case management order was been made requiring that

the two actions be tried together. The trial was ultimately scheduled for 11 weeks beginning on March 30, 2015.

18. As a result of the provisions of the Escrow Agreement, as set out above, no amount could be distributed from the Indemnification Escrow Amount until both the Offeree Shareholder Action and the Allen-Vanguard Action had been settled, or the issues had been decided by a final non-appealable order of a court of competent jurisdiction.

IV. The Settlement

19. The parties to the litigation have engaged in settlement negotiations, and agreed upon settlement terms. The settlement was only achieved after extended, arm's length negotiations between experienced business people and for sound business reasons, in my opinion. The Minutes of Settlement, dated December 15 (the "Minutes of Settlement"), are appended as Exhibit "C".

20. Among other things, the Minutes of Settlement contemplated a distribution to Allen-Vanguard from the Indemnification Escrow Amount in the amount of $28,000,000 CND.

21. On December 18, 2014, the the terms of the Minutes of Settlement were approved by the Honourable Mr. Justice Pattillo of the Ontario Superior Court of Justice (the "Settlement Approval Order"). The Settlement Approval Order approved the Minutes of Settlement, authorized GrowthWorks Canadian Fund Ltd. ("GrowthWorks") to perform its obligations under the Minutes of Settlement, including the distribution of the $28,000,000 from the Indemnification Escrow Amount to Allen-Vanguard.

22. I am informed by counsel to the Offeree Shareholders that $28,000,000 was released by Computershare to Allen-Vanguard on December 24, 2014.

23. As a term of the Minutes of Settlement, and the Settlement Approval Order, the balance of the Indemnification Escrow Amount (the "Remaining Proceeds"), together with all accumulated interest on that balance, remains invested with the Escrow Agent and shall be distributed to the Offeree Shareholders and the other former shareholders of Med-Eng by further order of the CCAA Court. The Escrow Agreement provides that the Remaining Proceeds are to be paid to the former shareholders in the proportions set forth in Schedule 4.1(f) to the Escrow Agreement. Schedule 4.1(f) sets out the proportionate interest of each of the former shareholders of Med-Eng based on the number of shares owned at the time of the sale of Med-Eng to Allen-Vanguard.

24. As of January 2, 2015, $15,832,262.29 remains invested, and the Escrow Fund had a cash balance of $96.53.

V. Costs Associated with the Litigation

25. The litigation between the Offeree Shareholders and Allen-Vanguard has been ongoing for over 6 years. To date, the Offeree Shareholders have incurred collectively in excess of $4.7 million in fees and disbursements, including the payment of professional fees for experts retained by the Offeree Shareholders and amounts paid to the third-party arbitrator retained by the parties to resolve the outstanding interlocutory proceedings.

26. All of the legal fees and disbursements incurred have been necessary and reasonable to defend properly the interests of all of the former shareholders of Med-Eng in the Indemnification Escrow Amount

27. Set out below is a summary of the legal proceedings in the Actions, and the costs incurred.

2008 & 2009

28. As set out above, both the Offeree Shareholder's Action and the Allen-Vanguard Action were commenced in 2008. The parties prepared and delivered their respective pleadings in late 2008 and in early 2009.

29. In early 2009, counsel for the Offeree Shareholders and Platinum Legal, the litigation and document management support firm retained to assist with the collection and processing of the documents relevant to the issues in the litigation, interviewed the various custodians of potentially relevant documents, collected and processed the documents, and developed search parameters to identify potentially relevant documents. Subsequently, counsel for the Offeree

Shareholders reviewed, analyzed and categorized the thousands of documents identified using the search parameters in order to identify the documents that needed to be produced in the litigation.

30. Draft versions of Schedules “A” and “B” of the Offeree Shareholders’ affidavit of documents were delivered to counsel for Allen-Vanguard on December 30, 2009 pursuant to a case management order made by Master MacLeod. A CD-ROM containing the Offeree Shareholders’ Schedule “A” documents in Summation-ready format was delivered to Allen-Vanguard’s counsel on February 1, 2010.

31. The fees and disbursements paid by the Offeree Shareholders in 2008 and 2009 totalled $191,020.54.

2010

32. Notwithstanding Master MacLeod's case management order, Allen-Vanguard did not deliver its affidavit of documents by the end of 2009.

33. On February 17, 2010, Master MacLeod convened another case management conference in respect of the Actions. Following the case management conference on February 17, 2010, Master MacLeod ordered Allen-Vanguard to produce all documents identified as relevant and not privileged by the end of April, 2010.

34. Notwithstanding the case management order, Allen-Vanguard did not produce any documents by April 30, 2010.

35. In May of 2010, the Offeree Shareholders brought two motions – one to strike Allen-Vanguard’s claim in the Allen-Vanguard Action, and a second to strike Allen-Vanguard’s defence in the Offeree Shareholder Action. Both of these motions sought alternative relief in the form

of an order requiring Allen-Vanguard to produce its affidavit of documents and productions (the "2010 Motions to Strike").

36. In response, Allen-Vanguard made a tactical motion to remove the Offeree Shareholder's counsel as lawyers of record in the Actions based on an alleged conflict of interest (the "Conflicts Motion"), and indicated that it would not be producing any documents pending the hearing of its motion.

37. Both the 2010 Motions to Strike and the Conflicts Motion required the preparation of motion materials, including the drafting of extensive affidavits and facta, as well as extensive legal research with respect to issues such as conflict of interest and solicitor-client privilege.

38. Ultimately, Allen-Vanguard and the Offeree Shareholders agreed to settle the outstanding motions by way of consent orders, dated July 12, 2010. As part of that settlement, Allen-Vanguard agreed to deliver its affidavit of documents and Schedule "A" productions to the Offeree Shareholders within 30 days of receiving certain specified documents from the Offeree Shareholders. Allen –Vanguard withdrew its Conflicts Motion and counsel to the Offeree Shareholders continued to represent the Offeree Shareholders.

39. On August 12, 2010, after receiving the specified documents from the Offeree Shareholders, Allen-Vanguard produced approximately 5,000 documents. Allen-Vanguard produced an additional 1,200 documents in November of 2010.

40. In the fall of 2010, counsel for the Offeree Shareholders reviewed and analyzed the first 6,000 documents produced by Allen-Vanguard. Counsel for the Offeree Shareholders also prepared for and conducted the first four days of David Luxton's examination for discovery. David Luxton, the then-CEO of Allen-Vanguard, was examined on December 3-4. David Luxton

was also examined on December 13-14, 2010. Throughout this time period, counsel for the Offeree Shareholders continued to raise questions with respect to the sufficiency of Allen-Vanguard's productions.

41. The fees and disbursements paid by the Offeree Shareholders in 2010 totalled $334,053.54.

2011

42. In 2011, the counsel for the Offeree Shareholders prepared extensive motion materials and argued two significant motions regarding documentary production, as well as a third motion regarding Allen-Vanguard's discovery rights.

43. Given the Offeree Shareholders' concerns with respect to the sufficiency of Allen-Vanguard's productions, the Offeree Shareholders served Allen-Vanguard with a motion returnable March 10, 2011. This motion (the "Productions Motion") sought to have Allen-Vanguard's pleadings in the Actions struck, or, in the alternative, an order requiring Allen-Vanguard to deliver a complete set of productions and to pay costs for the time thrown away in reviewing Allen-Vanguard's incomplete productions and preparing for the December 2010 examinations for discovery.

44. Subsequently, Allen-Vanguard brought a motion to sanction the Offeree Shareholders, alleging that counsel for the Offeree Shareholders were abusing the discovery process.

45. On June 24, 2011, Master MacLeod released reasons in respect of the Productions Motion and Allen-Vanguard's abuse of process motion. Master MacLeod dismissed Allen-Vanguard's motion to sanction the Offeree Shareholders, and ordered Allen-Vanguard to pay

costs to the Offeree Shareholders "as a consequence of breaching production obligations and failing to meet the times set out in court orders."

46. In the spring of 2011, the Offeree Shareholders also made a motion for, among other things, the production of all documents over which Allen-Vanguard had improperly claimed solicitor-client privilege, litigation privilege and common-interest privilege (the "Privilege Motion").

47. The Privilege Motion was prompted by Allen-Vanguard's service, in February of 2011, of a Schedule B to its affidavit of documents that was 672 pages in length and listed approximately 6,000 documents over which Allen-Vanguard was claiming privilege. Allen-Vanguard's Schedule B did not set out the basis upon which Allen-Vanguard claims of privilege were made.

48. I am informed by counsel to the Offeree Shareholders that Privilege Motion was heard on September 21, 2011 before Master MacLeod.

49. In his reasons for decision, dated December 23, 2011, Master MacLeod concluded that Allen-Vanguard had "inappropriately asserted privilege over broad categories of documents including due diligence documents and virtually all communication with a host of legal advisors including in house counsel" and had waived any privilege attaching to documents relating to "due diligence."

50. I am informed by counsel to the Offeree Shareholders that Master MacLeod noted the difficulties in challenging several thousand claims of privilege, and contemplated that further work would be required by the parties to prepare the issue for more efficient adjudication.

51. Allen-Vanguard did subsequently produce some documents that had originally been listed in its Schedule “B”. However, counsel to the Offeree Shareholders also informs me that Allen-Vanguard continued to claim privilege over more than 4,000 documents.

52. In 2011, counsel for the Offeree Shareholders also prepared for and conducted ten days of examinations for discovery of David Luxton. These examinations for discovery occurred on February 15-17, 2011, February 28, 2011, March 1, 2011, April 13-14, 2011, May 2, 2011, May 27, 2011, May 30, 2011, and June 1, 2011.

53. Counsel for the Offeree Shareholders also prepared the Offeree Shareholders’ representatives, Richard L’Abbé, Paul Echenberg and Richard Charlebois, for their respective examinations for discovery. These representatives were examined over the course of 10 days in 2011 by Allen-Vanguard’s counsel.

54. The third motion argued in the Actions in 2011 was made by Allen-Vanguard. Allen-Vanguard sought leave from the court to conduct an examination for discovery of certain non-parties. This motion was opposed by both the Offeree Shareholders, as well as the non-parties, Danny Osadca and Blair Geddes, who were represented by their own counsel. Allen-Vanguard was unsuccessful, and its motion was dismissed.

55. On December 9, 2011, Master MacLeod confirmed that the court had set September 16, 2013 as the date for the trial of the Actions.

56. The fees and disbursements paid by the Offeree Shareholders in 2011 totalled $562,954.65.

2012

57. Throughout 2012, Allen-Vanguard produced several thousand more documents relevant to the issues in the litigation. More specifically, Allen-Vanguard produced additional documents in August 2012, September 2012, October 2012 and November 2012. These documents, as well as those previously produced, were subject to extensive and necessary review, analysis and categorization by counsel to the Offeree Shareholders.

58. Counsel to the Offeree Shareholders also prepared for, and conducted, the continued examination for discovery of David Luxton. David Luxton was examined December 3 through 5, 2012, as well as for several days in early 2013.

59. In December of 2012, it was agreed that certain aspects of a third, related action would be tried together with the Actions. Paul Timmis, formerly a Corporate Vice-President at AVTI, commenced an action under Court File No. 08-CV-41899 (the "Timmis Action"), claiming damages for breach of contract and anticipatory breach of contract as against Allen-Vanguard and AVTI in relation to his departure from employment at AVTI.

60. In its statement of defence and counterclaim, Allen-Vanguard made claims arising from the alleged breaches, misrepresentations and fraud of Mr. Timmis during the sale of Med-Eng to Allen-Vanguard. Many of these allegations were substantially similar or identical to those made in the Actions. In 2011, the parties negotiated the terms upon which the common issues as between the Actions and the Timmis action would be tried together.

61. The fees and disbursements paid by the Offeree Shareholders in 2012 totalled $254,277.86.

2013

62. In early 2013, further examination for discovery of David Luxton was conducted by counsel to the Offeree Shareholders. These examinations for discovery took place on January 30, 31 and February 1, 2013.

63. The litigation was further complicated by two significant events in 2013.

64. First, Allen-Vanguard sought and obtained an amendment to its statement of claim, increasing the claim for damages from $40 million to $650 million.

65. The Offeree Shareholders did not consent to Allen-Vanguard's proposed amendments and Allen-Vanguard's motion seeking leave to amend its claim was heard before Master MacLeod on February 19, 2013. On February 21, 2013, Master MacLeod granted Allen-Vanguard leave to amend its statement of claim.

66. The Offeree Shareholders appealed the decision of Master MacLeod, which appeal was heard by Regional Senior Justice Hackland on April 22, 2013. The Offeree Shareholders' appeal was dismissed by Regional Senior Justice Hackland on May 22, 2013 as he agreed with Master MacLeod's conclusion that he "could not definitively say that the proposed amendment was untenable".

67. Following Justice Hackland's decision, a further hearing was held before Master MacLeod in respect of the terms upon which leave to amend the statement claim would be granted. Counsel for the Offeree Shareholders prepared extensive written submissions, and the Offeree Shareholders sought, among other relief, the adjournment of the trial in the Actions.

The Offeree Shareholders also sought the scheduling of a motion for summary judgment to address Allen-Vanguard's entitlement under the Share Purchase Agreement to seek damages from the Offeree Shareholders in excess of the Indemnification Escrow Amount.

68. On May 30, 2013, Master MacLeod adjourned the trial previously scheduled for September 2013.

69. The amended statement of claim in the Allen-Vanguard Action was issued on June 11, 2013. The Offeree Shareholders' amended statement of defence in the Allen-Vanguard Action was served on or about June 28, 2013 and Allen-Vanguard's Reply was served on or about August 22, 2013.

70. Around the time of the amendments to Allen-Vanguard's statement of claim, I retained on behalf of the Schroder defendants an additional law firm, Bennett Jones LLP, to assist all of the Offeree Shareholders in preparing the Actions for trial.

71. I instructed Conway LLP and Bennett Jones LLP to organize themselves and to apportion the work in order to avoid any unnecessary duplication of effort. A work plan to that effect was ultimately prepared to deal with the steps necessary to get the case prepared for trial. Counsel from both law firms have assured me that they did use their best efforts and succeeded in avoiding unnecessary duplication through a division of tasks, divided responsibility for motions and so forth.

72. Secondly, on October 1, 2013, GrowthWorks was granted protection under the Companies' Creditors Arrangement Act ("CCAA") pursuant to an initial order of the Honourable Mr. Justice Newbould (the "Initial Order"). The CCAA proceedings stayed the Allen-Vanguard

Action, and because it was required to be tried together with the Offeree Shareholder Action under a case management order, it also effectively stayed the Offeree Shareholder Action.

73. In late October of 2013, Allen-Vanguard made a motion for an order that the stay of all proceedings against GrowthWorks, which had been imposed by the Initial Order, not apply to the Actions (the “Lift Stay Motion”).

74. GrowthWorks, supported by the other Offeree Shareholders, made a cross-motion seeking a mini-trial of certain issues raised in the Allen-Vanguard Action (the “Mini-Trial Motion”). More particularly, GrowthWorks sought an order that the following questions be determined at a mini-trial before a judge of the Ontario Superior Court of Justice (Commercial List):

a. Were the claims of Allen-Vanguard extinguished at law when it amalgamated with Allen-Vanguard Technologies Inc., formerly Med-Eng Systems Inc. ("Med-Eng"), on January 1, 2011?

b. Assuming Allen-Vanguard could prove its allegations of fraudulent misrepresentation on the part of the former management of Med-Eng, did the Share Purchase Agreement permit Allen-Vanguard to seek damages from the Applicant and other Offeree Shareholders in excess of the "Indemnification Escrow Amount," as that term is defined in the Share Purchase Agreement, for the alleged fraudulent misrepresentations of Med-Eng?

75. GrowthWorks, and the other Offeree Shareholders, sought an order in the CCAA Proceedings for the conduct of a mini-trial of the issues that might otherwise have been the subject of the motion for summary judgment that the Offeree Shareholders had instructed counsel to bring in the Allen-Vanguard Action. A mini-trial, if ordered, would have expedited litigation over the question of whether Allen-Vanguard was entitled to claim against the Offeree Shareholders for amounts beyond the Escrow and may have determined other factual and legal issues between the parties to both actions.

76. As part of the preparation for Allen-Vanguard's Lift Stay Motion and GrowthWorks' Mini-Trial Motion, counsel for the Offeree Shareholders completed the drafting of several affidavits for use on the mini-trial. The initial drafting of these affidavits, as well as the review and identification of the attached exhibits, had previously been undertaken to support the Offeree Shareholders' anticipated summary judgment motion.

77. Both Allen-Vanguard's motion and GrowthWorks' cross-motion were not heard until early 2014.

78. Throughout the year, Allen-Vanguard also produced at least seven additional batches of documents. Counsel for the Offeree Shareholders reviewed, analyzed and categorized the additional productions, and prepared for further examinations for discovery of David Luxton.

79. The fees and disbursements paid by the Offeree Shareholders in 2013 totalled $948,133.30.

80. In addition to the above, Allen-Vanguard served its expert's report in March 2013. Prior to the delivery of this report, Mr. Luxton and his counsel had consistently refused to answer specific questions regarding Allen-Vanguard's alleged damages, and had informed counsel for

the Offeree Shareholders that particulars with respect to Allen-Vanguard's claim for damages would be provided prior to trial.

81. On March 15, 2013, Allen-Vanguard served its expert's report (the "Low Report"), setting out the basis for its claim for damages. As a result, in addition to the legal fees and disbursements incurred by the Offeree Shareholders as their counsel prepared document briefs and other materials for the experts retained by the Offeree Shareholders, the Offeree Shareholders also incurred $325,618.06 in expert's fees for 2013.

2014

82. The parties to the Actions appeared before Mr. Justice D.M. Brown in respect of the Lift Stay motion and the Mini-Trial Motion on February 11, 2014, and again on April 8, 2014. Justice Brown did not order a mini-trial. Rather, Justice Brown, among other things, ordered that the trial in the Actions would start no later than the second quarter of 2015.

83. In order to meet the timelines ordered by Justice Brown, Allen-Vanguard and the Offeree Shareholders agreed to retain the services of a neutral third-party to adjudicate the outstanding pre-trial issues. The Offeree Shareholders had continued concerns with respect to the sufficiency of Allen-Vanguard's productions, particularly with respect to the new issues raised by Allen-Vanguard's amendments to its statement of claim in the Allen-Vanguard Action, and had continued questions regarding the documents identified as privileged in Allen-Vanguard's affidavit of documents. Both Allen-Vanguard and the Offeree Shareholders also anticipated further motions to address issues with the undertaking responses provided by the other party, as well as the objections from the examinations for discovery.

84. In the summer and fall of 2014, motions made by the parties were heard by the neutral third-party adjudicator.

85. In July of 2014, the Offeree Shareholders made a motion to compel production of relevant documents in the possession and control of Allen-Vanguard, and to compel answers to refusals and outstanding undertakings given during the examinations for discovery of David Luxton. Also in July of 2014, Allen-Vanguard made a motion seeking to require additional productions from the Offeree Shareholders and to compel answers to the refusals from the examinations for discovery of the Offeree Shareholders' representatives. Extensive motion materials were prepared, including written submissions, and a hearing was held on July 30, 2014.

86. The Offeree Shareholders also made a further motion with respect to the outstanding privilege issues. In particular, the Offeree Shareholders challenged many of Allen-Vanguard's claims of common interest privilege. Counsel for the Offeree Shareholders met with counsel for Allen-Vanguard on several occasions to discuss Allen-Vanguard's claims of privilege, and ultimately the issues in dispute were heard by the third-party adjudicator on September 23, 2014 and October 15, 2014. As with the previous privilege motion in 2011, extensive analysis of the privilege claims made by Allen-Vanguard was necessary and fulsome motion materials were prepared.

87. In addition to the above, counsel for the Offeree Shareholders also continued to prepare for a trial in 2015. Counsel for the Offeree Shareholders provided additional information and documents to the experts retained by the Offeree Shareholders, met with various witnesses,

prepared for and conducted the continued examination for discovery of David Luxton, and reviewed, analyzed and categorized the additional productions received from Allen-Vanguard.

88. Finally, counsel for the Offeree Shareholders also assisted with the extensive negotiations that ultimately resulted in the Minutes of Settlement.

89. The fees and disbursements paid by the Offeree Shareholders in 2014 totalled $1,203,360.78.

90. The Offeree Shareholders also incurred $281,328.25 in expert's fees for 2014.

91. In addition to the work set out above, between 2008 and 2014, counsel for the Offeree Shareholders attended over 20 case conference before Master MacLeod, prepared answers to the undertakings given during the examinations for discovery of the Offeree Shareholders' representatives, and drafted cost submissions in respect of motions heard by Master MacLeod and Justice Hackland. Our counsel also estimates that the total number of documents reviewed, categorized and analyzed during this period was in excess of 22,000.

92. Between 2008 and 2014, the Offeree Shareholders also incurred additional legal fees and disbursements relating to communications with the former minority shareholder of Med-Eng, as well as the management and investment of the Escrow Fund. These legal fees totaled approximately $73,000.

93. In 2009, three former executives of Med-Eng had also commenced an action naming the Offeree Shareholders as defendants. I am informed by counsel to the Offeree Shareholders that the action, which repeated claims advanced in actions commenced in 2006 and 2007 against

Med-Eng and its former directors, sought the imposition of a remedial constructive trust and primary first charge over the Indemnification Escrow Fund. The Offeree Shareholders brought a Rule 21 motion in March of 2010, seeking to have the statement of claim struck on the grounds that it disclosed no reasonable cause of action as against the Offeree Shareholders and that it constituted an abuse of process. While the Offeree Shareholders' motion was successful, the plaintiffs appealed the decision of Justice McNamara. The appeal, heard by the Court of Appeal for Ontario, was dismissed and the statement of claim was struck. These legal fees totaled approximately $160,000.

2015

94. I am informed by counsel for the Offeree Shareholders that the fees and disbursements for 2015 are estimated at $75,000.

GrowthWorks' Expenses

95. The CCAA proceedings of GrowthWorks added a new dimension to the Allen-Vanguard Action. I am advised by counsel that while all creditor claims and law suits against the debtor company (in this case, GrowthWorks) are stayed, the CCAA and orders made in the CCAA proceedings permit claimants to prove their claims as creditors of the debtor company.

96. I am also advised by counsel that in CCAA proceedings, a person or firm holding a license as a Trustee in Bankruptcy must be appointed as Monitor of the debtor company to assist the court in the supervision of the debtor company's restructuring process, including the process of reviewing claims and the process by which they will be adjudicated.

97. The Initial Order in the CCAA Proceedings appointed FTI Consulting Canada Inc. (the "Monitor") as Monitor of GrowthWorks. The Monitor engaged Osler Hoskins & Harcourt LLP as its independent counsel. Pursuant to the Initial Order, the fees and expenses of the Monitor and its counsel must be paid by GrowthWorks. Accordingly, from and after the granting of the Initial Order in the CCAA Proceedings, GrowthWorks incurred legal and Monitor fees and expenses in its CCAA Proceedings dealing with Allen-Vanguard's claim.

98. GrowthWorks' counsel in the CCAA Proceedings is McCarthy Tétrault LLP. From and after April 30, 2014, GrowthWorks has also been represented by Kevin P. McElcheran Professional Corporation as co-counsel after Mr. McElcheran left McCarthy Tétrault and opened his own practice.

99. As noted above, Allen-Vanguard brought a Lift Stay Motion in the CCAA Proceedings to permit the Offeree Shareholder Action and the Allen-Vanguard Action to continue without regard to the CCAA Proceedings. GrowthWorks, with the support of the other Offeree Shareholders, brought the cross motion for a mini-trial in order to expedite the determination of factual and legal issues raised in the Allen-Vanguard Action as it was amended in 2013 to claim amounts exceeding the funds held in Escrow.

100. The Monitor reported to the Court in these proceedings on the Allen-Vanguard Lift Stay motion. Updates on the progress of the Allen-Vanguard Litigation are included in each of the Monitor's reports in these proceeding beginning with the 3rd Report (with the exception of the 4th Report). Further, the Monitor provided the Court with a supplement to its seventh report which supplement was solely for the purpose of informing the Court on the Allen-Vanguard

Action. The Monitor was represented by counsel at the hearing of all motions in these proceedings including all motions dealing with Allen-Vanguard's claims.

101. As a consequence of the Lift Stay Motion and the Mini-Trial Motion, Justice Brown issued an order in these proceedings imposing a detailed timetable for the conduct of the Offeree Shareholder Action and the Allen-Vanguard Action so as to require such actions to be promptly set down for trial. In accordance with the timetable ordered by Justice Brown, the actions were scheduled for an 11 week trial beginning in March of 2015.

102. The costs incurred by GrowthWorks dealing with the claims asserted by Allen-Vanguard, including the Lift Stay Motion and the Mini-Trial Motion for its own counsel, the fees of the Monitor and its counsel totalled approximately $394,597.

103. The Minutes of Settlement eventually agreed among the parties to the Actions was conditional on approval of the settlement by this Court in these proceedings. GrowthWorks incurred costs in connection with the negotiation of the settlement, in connection with its motion for approval of the settlement and is continuing to incur costs in bringing this motion for the distribution of the Remaining Proceeds. These additional costs will total approximately $70,000 for the fees of its counsel, the fees of the Monitor and the fees of its counsel.

104. Attached as Exhibit "D" is a summary of the expenses incurred to date by the Offeree Shareholders.

Other Expenses Incurred

105. In addition to the amounts set out above, with each passing year, the Schroder Fund Entities continue to incur fees and expenses associated with keeping the Schroder Fund open, which we estimate to be approximately $550,000 a year. The Offeree Shareholders are not seeking to recover these amounts.

106. Likewise, each of the Offeree Shareholders and their representatives have spent considerable time and other resources managing the litigation and attending at examinations for discovery. No compensation is sought in respect of these expenses.

107. Further expenses have been incurred by the Schroder Fund Entities as a result of the Offeree Shareholder Action and the Allen-Vanguard Action. At various times between 2008 and 2014, legal advice has been sought by the Schroder Fund in respect of issues such as the funding of the litigation, reporting to the fund's constituents, related liability issues as well as obtaining approvals of various mandates. This legal advice, the legal fees for which totalled approximately $745,000, was not sought from counsel to the Offeree Shareholders, and is not included in the amounts set out above. The Offeree Shareholders are not seeking to recover these amounts.

108. I swear this affidavit in support of GrowthWorks' motion to approve the distribution of the Remaining Proceeds.

SWORN before me at BOCA RATON FL)
in FLORIDA, this 19 th day)
of January 2015.)
)

Paul Echenberg

A Commissioner for taking oath

LAWRENCE DONALD KOHN
MY COMMISSION # EE190256
EXPIRES May 13, 2016
(407) 398-0153 FloridaNotaryService.com

This is Exhibit "A" referred to in the
affidavit of Paul Echenberg
sworn before me, this 19th day
of January 2015.

A Commissioner for Taking Affidavits

SHARE PURCHASE AGREEMENT

BETWEEN

ALLEN-VANGUARD CORPORATION

AND

OFFEREE SHAREHOLDERS

AND

MED-ENG SYSTEMS INC.

MADE AS OF

AUGUST 3, 2007

McCarthy Tétrault LLP

Ottawa, Ontario

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SHARE PURCHASE AGREEMENT

THIS AGREEMENT is made as of August 3, 2007

BETWEEN

Allen-Vanguard Corporation, a corporation incorporated under the laws of the Province of Ontario (the **"Purchaser"**),

- and -

Offeree Shareholders (as defined below),

- and -

Med-Eng Systems Inc., a corporation incorporated under the laws of the Province of Ontario (the **"Corporation"**),

WHEREAS the Offeree Shareholders and the Minority Shareholders (as defined below) are the registered owners of all of the Shares (as defined below);

AND WHEREAS the Purchaser delivered to the Offeree Shareholders an offer dated August 2, 2007 to purchase all of the Shares on the terms and conditions set forth herein (the "Offer");

AND WHEREAS the Offeree Shareholders, who hold in excess of 70% of the aggregate of the Shares on a fully diluted basis (as defined in the Shareholders Agreement defined below), have accepted the Offer;

AND WHEREAS the Offeree Shareholders will deliver to all other Shareholders (the "Minority Shareholders"), together with a copy of the Offer, a notice (the "Drag Along Notice") indicating the intention of the Offeree Shareholders to accept the Offer and requiring the Minority Shareholders to sell the Shares held by them to the Purchaser in accordance with the Shareholders Agreement;

NOW THEREFORE, in consideration of the covenants and agreements herein contained, the parties agree as follows:

ARTICLE 1- INTERPRETATION

1.01 **Definitions**

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

"**Affiliate**" means, with respect to any person, any other person that controls or is controlled by or is under common control with the referent person.

"Agreement" means this agreement, including its recitals and schedules, as amended from time to time.

"Applicable Law" means

(i) any applicable domestic or foreign law including any statute, subordinate legislation or treaty, and

(ii) any applicable guideline, directive, rule, standard, requirement, policy, order, judgment, injunction, award or decree of a Governmental Authority having the force of law.

"Audited Financial Statements" has the meaning set out in Section 3.01(2)(b).

"Balance Sheet" means the consolidated balance sheet of the Corporation.

"Balance Sheet Date" means June 30, 2007.

"Benefit Plans" has the meaning set out in Section 3.01(8)(a).

"Business Day" means a day other than a Saturday, Sunday or statutory holiday in Ottawa, Ontario.

"Claims" means all losses, damages, expenses, liabilities (whether accrued, actual, contingent, latent or otherwise), claims and demands of whatever nature or kind including all reasonable legal fees and disbursements.

"Closing Date" means August 31, 2007 or as soon as practicable thereafter following satisfaction of the conditions to closing set forth in Sections 5.01(d) and 5.02(e) or such other date, in each case as may be agreed to in writing by the Offeree Shareholders, the Corporation and the Purchaser.

"Commitment Letters" has the meaning set out in Section 3.03(g).

"Compensation Policies" has the meaning set out in Section 3.01(8)(b).

"Competition Act" means the *Competition Act* (Canada).

"Corporation" means Med-Eng Systems Inc.

"CRA" means the Canada Revenue Agency.

"**Defence Counsel**" has the meaning set out in Section 7.04.

"**Defence Notice**" has the meaning set out in Section 7.04.

"Environmental Law" means any Applicable Law relating to the environment including those pertaining to

(i) reporting, licensing, permitting, investigating, remediating and cleaning up in connection with any presence or Release, or the threat of the same, of Hazardous Substances, and

(ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport, handling and the like of Hazardous Substances, including those pertaining to occupational health and safety.

"Escrow Agent" means Computershare Trust Company of Canada.

"Escrow Agreement" means the escrow agreement among the Purchaser, the Offeree Shareholders and the Escrow Agent in a form acceptable to each of them, and providing for the escrow arrangements contemplated by this Agreement pertaining to the Working Capital Escrow Amount and the Indemnification Escrow Amount.

"Estimated Working Capital" has the meaning set out in Section 2.03(2).

"Governmental Authority" means any domestic or foreign legislative, executive, judicial or administrative body or law enforcement agency or person having or purporting to have jurisdiction in the relevant circumstances.

"HSR Act" has the meaning set out in Section 5.01(d).

"Hazardous Substance" means any substance or material that is prohibited, controlled or regulated by any Governmental Authority pursuant to Environmental Laws.

"Indemnification Escrow Amount" means $40 million, which amount will be deposited with the Escrow Agent as contemplated by Section 2.04, and will be held in accordance with the terms of the Escrow Agreement.

"Indemnitee" has the meaning set out in Section 7.04.

"Indemnitor" has the meaning set out in 7.04.

"Intellectual Property" means intellectual property of the Corporation and its Subsidiaries of any nature and kind including all domestic and foreign trade-marks, business names, trade names, domain names, trading styles, patents, trade secrets, Software, industrial designs and copyrights, whether registered or unregistered, and all applications for registration thereof, and inventions, formulae, recipes, product formulations, processes and processing methods, technology and techniques, and know-how.

"Inventories" means all inventories of the Corporation and its Subsidiaries, determined in accordance with generally accepted accounting principles, including all finished goods, work in progress, raw materials, supplies and spare parts.

"Investment Canada Act" means the *Investment Canada Act* (Canada).

"knowledge" means with respect to the Corporation, the actual knowledge of any of Danny Osadca, President and Chief Executive Officer, Blair Geddes, Chief Financial Officer and Secretary, and Paul Timmis, Vice President, Electronic Systems.

"Licensed Intellectual Property" means all Intellectual Property other than shrink-wrap software that is used by the Corporation but owned by another person and which is necessary to the operation of the business of the Corporation and its Subsidiaries as presently conducted.

"Material Adverse Effect" means, when used in connection with the Corporation and its Subsidiaries or their business, any change, event, violation, inaccuracy, circumstance or effect that is or could reasonably be expected to be materially adverse to the business, assets, liabilities, financial condition, results of operations of the Corporation and its Subsidiaries other than as a result of (i) changes to the Canadian, United States or global economy, in each case as a whole; (ii) changes to the financial markets; (iii) changes adversely affecting the industry in which the Corporation and its Subsidiaries operate (so long as the Corporation and its Subsidiaries are not disproportionately affected thereby); (iv) the announcement or pendency of the transactions contemplated by this Agreement; (v) changes in laws; or (vi) changes in generally accepted accounting principles.

"Minority Shareholders" has the meaning set forth in the recitals hereto, being the Shareholders whose names and respective holdings are set forth in Schedule 3.02(e) other than the Offeree Shareholders.

"Non-Resident Shareholders" means the Shareholders whose names are identified as such in Schedule 3.02(e).

"Normalized Working Capital" has the meaning set out in Section 2.03(1).

"Offer" has the meaning set forth in the recitals hereto.

"Offeree Shareholders" means Richard L'Abbé, 1062455 Ontario Inc., GrowthWorks Canadian Fund Ltd., Schroder Canada and Schroder UK.

"Options" means options for the purchase of Class A Common Shares of the Corporation granted pursuant to the Stock Option Plan, being at the date of this Agreement options for an aggregate of 2,045,625 Class A Common Shares held by the individuals whose names and respective holdings are set forth in Schedule 3.01(1)(g)(i).

"Owned Intellectual Property" means all material Intellectual Property that is owned by the Corporation and which is necessary to the operation of the business of the Corporation and its Subidiaries as presently conducted.

"Partnership" means Med-Eng Technologies, a partnership formed under the laws of the Province of Alberta, of which the partners are 1252110 Alberta Ltd. and 1252144 Alberta Ltd.

"Permits" means all permits, consents, waivers, licences, certificates, approvals, authorizations, registrations, franchises, rights, privileges, quotas and exemptions, or any item with a similar effect, issued or granted by any person.

"**Personal Information**" means the type of information regulated by Privacy Laws and collected, used, disclosed or retained by the Corporation and its Subsidiaries including information regarding the customers, suppliers, employees and agents of the Corporation and its Subsidiaries, such as an individual's name, address, age, gender, identification number, income, family status, citizenship,

employment, assets, liabilities, source of funds, payment records, credit information, personal references and health records.

"**Privacy Laws**" means all Applicable Laws governing the collection, use, disclosure and retention of Personal Information, including the *Personal Information Protection and Electronic Documents Act* (Canada).

"**Privacy Policies**" means all privacy, data protection and similar policies adopted or used by the Corporation and its Subsidiaries in respect of Personal Information, including any complaints process.

"Purchase Price" has the meaning set out in Section 2.02.

"**Purchaser Indemnitees**" has the meaning set out in Section 7.02(1).

"Release" means any release or discharge of any Hazardous Substance including any discharge, spray, injection, inoculation, abandonment, deposit, spillage, leakage, seepage, pouring, emission, emptying, throwing, dumping, placing, exhausting, escape, leach, migration, dispersal, dispensing or disposal.

"Schroder Canada" means Schroder Venture Managers (Canada) Limited in its capacity as general partner of each of Schroder Canadian Buy-Out Fund II Limited Partnership CLP1, Schroder Canadian Buy-Out Fund II Limited Partnership CLP2, Schroder Canadian Buy-Out Fund II Limited Partnership CLP3, Schroder Canadian Buy-Out Fund II Limited Partnership CLP4, Schroder Canadian Buy-Out Fund II Limited Partnership CLP5, Schroder Canadian Buy-Out Fund II Limited Partnership CLP6.

"Schroder UK" means Schroder Ventures Holdings Limited in its capacity as general partner of Schroder Canadian Buy-Out Fund II UKLP, and on behalf of Schroder Canadian Buy-Out Fund II Coinvestment Scheme and SVG Capital plc (formerly, Schroder Ventures International Investment Trust plc).

"Shareholder Indemnitees" has the meaning set out in Section 7.03(1).

"Shareholders" means the registered holders of the Shares of the Corporation whose names and respective holdings are set forth in Parts I and II of Schedule 3.01(1)(d).

"Shareholders Agreement" means the Shareholders Agreement made as of April 19, 2000, as supplemented, between the Corporation, Schroder Canada, Schroder UK, Richard L'Abbé, 1062445 Ontario Inc., Vincent Crupi, Danielle Crupi, Richard L'Abbé as Voting Trustee, and Growthworks Canadian Fund Ltd. as transferee from Capital Alliance Ventures Inc.

"Shares" means all of the Class A Common Shares and the Class B Common Shares of the Corporation issued and outstanding on the Closing Date, including the Class A Common Shares issued subsequent to the date of this Agreement and prior to the Closing Date upon the exercise of Options.

"Software" means all software of the Corporation and its Subsidiaries, including all versions thereof, and all related documentation, manuals, source code and object code, program files, data files, computer related data, field and data definitions and relationships, data definition specifications, data models, program and system logic, interfaces, program modules, routines, sub-routines, algorithms, program architecture, design concepts, system designs, program structure, sequence and organization, screen displays and report layouts, and all other material related to such software.

"Stock Option Plan" means the Employee and Director Stock Option Plan of the Corporation as amended and restated as of April 12, 2000.

"**Subsidiary**" means, with respect to any person, an entity which is controlled by such person; when used without reference to a particular person, "Subsidiary" means a Subsidiary of the Corporation.

"**Take Back Notes**" means subordinated secured promissory notes of the Purchaser having the following terms and conditions:

(i) Interest: 10% simple interest per annum, payable monthly in arrears;

(ii) Maturity: 120 days from the Closing Date;

(iii) Extension Right: If requested by the holders in writing, the Purchaser shall have the right to extend the maturity date of the notes to March 31, 2008 on payment to the holders of an extension fee of 3% of the principal amount of the notes then held by the holders. During this extension period, simple interest shall be payable at the rate of 14% per annum, payable monthly in arrears;

(iv) Public Offering: The Purchaser will use its best efforts to raise net proceeds, after payment of all expenses of the offering, of not less than the aggregate principal amount of all issued notes by way of a public offering of equity or convertible debt securities. So long as the notes are outstanding, the Purchaser shall continue to use its best efforts to complete such offering and shall use the proceeds of the completed public offering to repay any amounts outstanding under the notes, subject to the terms of the Senior Lenders' financing in the original principal amount of $370 million to be provided by the lenders (the "Senior Lenders") as contemplated in a Commitment Letter (the "Senior Commitment Letter"), a copy of which has been delivered by the Purchaser to the Corporation and the Offeree Shareholders (the "Senior Lenders' Financing") (all debt under the Senior Lenders' Financing is the "Senior Debt"). If the Purchaser cannot use the proceeds of such public offering to retire the notes because of the terms of the Senior Lenders' Financing, the Purchaser will use its best efforts to replace the Senior Lenders' Financing with conventional bank lending arrangements;

(v) Rank: The notes shall rank behind the Senior Debt provided by the Senior Lenders to the Purchaser for the acquisition of the Corporation but shall

rank prior to all other indebtedness for borrowed money of the Purchaser and its subsidiaries;

(vi) Security: The notes shall be entitled to security to the same extent and granted by the same parties as the security held by the Senior Lenders, and such security will be subordinated to the Senior Lenders' security as contemplated in the Senior Commitment Letter;

(vii) Representations, Warranties and Covenants: The notes will be issued pursuant to a note purchase agreement to be signed on or prior to the Closing Date and contain the same representations, warranties and covenants (subject to customary cushions versus the corresponding Senior Debt covenants), other than with respect to repayment, events of default, conditions precedent, financial covenants and due diligence rights as the agreement for the Senior Debt;

(viii) Assignability: The notes will be assignable without the consent of the Purchaser.

"Tax Act" means the *Income Tax Act* (Canada).

"Taxes" means all federal, state, provincial, territorial, county, municipal, local or foreign taxes, duties, imposts, levies, assessments, tariffs and other charges imposed, assessed or collected by a Governmental Authority including, (i) any gross income, net income, gross receipts, business, royalty, capital, capital gains, goods and services, value added, severance, stamp, franchise, occupation, premium, capital stock, sales and use, real property, land transfer, personal property, ad valorem, transfer, licence, profits, windfall profits, environmental, payroll, employment, employer health, pension plan, anti-dumping, countervail, excise, severance, stamp, occupation, or premium tax, (ii) all withholdings on amounts paid to or by the relevant person, (iii) all employment insurance premiums, Canada, Quebec, U.S. and any other pension plan contributions or premiums, (iv) any fine, penalty, interest, or addition to tax, (v) any tax imposed, assessed, or collected or payable pursuant to any tax-sharing agreement or any other contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee, and (vi) any liability for any of the foregoing as a transferee, successor, guarantor, or by contract or by operation of law.

"Tax Returns" means all returns, reports, declarations, statements, bills, schedules, forms or written information of, or in respect of, Taxes that are, or are required to be, filed with or supplied to any Taxation Authority.

"Taxation Authority" means any domestic or foreign government, agency or authority that is entitled to impose Taxes or to administer any applicable Tax legislation.

"Time of Closing" means 10:00 a.m. (Ottawa Time) on the Closing Date or such other time on the Closing Date as may be agreed in writing by the Offeree Shareholders, the Corporation and the Purchaser.

"Third Party Proceedings" has the meaning set out in Section 7.04.

"Unaudited Financial Statements" has the meaning set out in Section 3.01(2)(c).

"Voting Trust Agreement" means the Voting Trust Agreement made as of April 19, 2000, as supplemented, between the Minority Shareholders and Richard L'Abbé, as Trustee.

"Working Capital" means the consolidated current assets, excluding cash, cash equivalents , short-term investments and future Tax receivables of the Corporation and its Subsidiaries as at the close of business on the day before the Closing Date, all calculated in accordance with generally accepted accounting principles consistently applied, less the consolidated current liabilities, excluding all bank and other indebtedness (including capital lease obligations) and future Tax liabilities of the Corporation and its Subsidiaries as at the close of business on the day before the Closing Date, all calculated in accordance with generally accepted accounting principles consistently applied.

"Working Capital Escrow Amount" means $3 million, which amount will be deposited with the Escrow Agent as contemplated by Section 2.04, and will be held in accordance with the terms of the Escrow Agreement.

"Working Capital Statement" has the meaning set out in Section 2.03(3).

1.02 **Headings**

The division of this Agreement into Articles and Sections and the insertion of a table of contents and headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles, Sections and Schedules are to Articles and Sections of and Schedules to this Agreement.

1.03 **Extended Meanings**

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, corporations, limited and unlimited liability companies, general and limited partnerships, associations, trusts, unincorporated organizations, joint ventures and Governmental Authorities. The term "including" means "including without limiting the generality of the foregoing" and the term "third party" means any person other than a Shareholder, the Corporation and the Purchaser.

1.04 **Statutory References**

In this Agreement, unless something in the subject matter or context is inconsistent therewith or unless otherwise herein provided, a reference to any statute is to that statute as now enacted or as the same may from time to time be amended, re-enacted or replaced and includes any regulations made thereunder.

1.05 **Accounting Principles**

Wherever in this Agreement reference is made to a calculation to be made or an action to be taken in accordance with generally accepted accounting principles, such reference will be deemed to be to the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation or action is made or taken or required to be made or taken.

1.06 **Currency**

Unless otherwise expressly stated, all references to currency herein are to lawful money of Canada.

1.07 **Control**

(1) For the purposes of this Agreement,

(a) a person controls a body corporate if securities of the body corporate to which are attached more than 50 per cent of the votes that may be cast to elect directors of the body corporate are beneficially owned by the person and the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the body corporate, or the person otherwise, directly or indirectly, possesses the power to direct or cause the direction of the management and policies of such body corporate, whether through the ownership of voting securities or other equity securities, by contract or otherwise;

(b) a person controls an unincorporated entity, other than a limited partnership, if more than 50 per cent of the ownership interests, however designated, into which the entity is divided are beneficially owned by that person and the person is able to direct the business and affairs of the entity, or the person otherwise, directly or indirectly, possesses the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of such ownership interests, by contract or otherwise; or

(c) the general partner of a limited partnership controls the limited partnership.

(2) A person who controls an entity is deemed to control any entity that is controlled, or deemed to be controlled, by the entity.

(3) A person is deemed to control, within the meaning of Section 1.07(1)(a) or (1)(b) an entity if the aggregate of

(a) any securities of the entity that are beneficially owned by that person, and

(b) any securities of the entity that are beneficially owned by any entity controlled by that person

is such that, if that person and all of the entities referred to in paragraph (b) that beneficially own securities of the entity were one person, that person would control the entity.

1.08 **Schedules**

The following are the Schedules to this Agreement:

Schedule 2.04	-	Proportionate Interests of the Shareholders
Schedule 3.01(1)(c)	-	Share Rights, Privileges, Restrictions and Conditions attaching to Shares
Schedule 3.01(1)(d)(i)	-	Shareholders
Schedule 3.01(1)(d)(ii)		Non-Resident Shareholders (Minority Shareholders)
Schedule 3.01(1)(g)(i)	-	Employee and Director Stock Option Plan
Schedule 3.01(2)(b)	-	Audited Financial Statements for year ended December 31, 2006
Schedule 3.01(2)(c)	-	Unaudited Financial Statements for the period ended June 30, 2007
Schedule 3.01(2)(d)	-	Liabilities
Schedule 3.01(2)(e)	-	Transactions out of the Normal Course of Business
Schedule 3.01(2)(g)	-	Non-Arm's Length Indebtedness
Schedule 3.01(3)(a)	-	Non-Owned Property
Schedule 3.01(3)(f)	-	Dividends
Schedule 3.01(3)(g)	-	Exceptions to Product Specifications & Material Claims
Schedule 3.01(4)(a)	-	Contracts in Excess of 12 Months or $100,000
Schedule 3.01(4)(c)	-	Guarantees, Indemnities, Sureties & Similar Obligations
Schedule 3.01(4)(d)	-	Leased Real Property
Schedule 3.01(4)(e)	-	Restrictions on Business
Schedule 3.01(4)(f)	-	Options to Acquire Securities
Schedule 3.01(4)(h)	-	Required Consents
Schedule 3.01(5)(a)	-	Intellectual Property Rights
Schedule 3.01(6)(a)	-	Management or Consulting Fees
Schedule 3.01(6)(b)	-	Employee Contracts
Schedule 3.01(6)(c)	-	List of Employees
Schedule 3.01(6)(d)	-	Consulting Contracts
Schedule 3.01(6)(g)	-	Organized Labour Issues
Schedule 3.01(8)(a)	-	Benefit Plans
Schedule 3.01(8)(b)	-	Compensation Policies
Schedule 3.01(8)(e)	-	Employee Obligations upon Execution of Transaction
Schedule 3.01(8)(f)	-	Obligations under Collective Bargaining Agreements
Schedule 3.01(9)(b)	-	Environmental Permits
Schedule 3.01(10)(a)	-	Taxes

Schedule 3.01(11)(a)	-	Export Law Compliance
Schedule 3.01(11)(b)	-	FCPA and CFPOA Compliance
Schedule 3.01(12)(a)	-	Litigation
Schedule 3.01(12)(c)	-	Regulatory Compliance
Schedule 3.01(12)(d)	-	List of Required Permits
Schedule 3.01(12)(e)	-	List of Insurance Policies
Schedule 3.01(12)(j)	-	Corporate Bank Accounts and Authorized Persons
Schedule 3.01(12)(k)	-	Ten Largest Suppliers and Customers; and
Schedule 3.02(e)	-	Non-Resident Shareholders (Offeree Shareholders)

For purposes of this Agreement, information disclosed in any Schedule will be deemed to be disclosed for purposes of disclosure in any other Schedule.

ARTICLE 2- SALE AND PURCHASE

2.01 Shares to be Sold and Purchased

Upon and subject to the terms and conditions hereof, the Shareholders will sell the Shares to the Purchaser and the Purchaser will purchase the Shares from the Shareholders, as of the Time of Closing on the Closing Date.

2.02 Purchase Price

The purchase price payable by the Purchaser to the Shareholders for the Shares (such amount being hereinafter referred to as the "Purchase Price") will be $581 million, subject to adjustment as provided in Section 2.03.

2.03 Working Capital Adjustment

(1) The Purchase Price has been determined on the basis that the Corporation and its Subsidiaries will have Working Capital of $10 million ("Normalized Working Capital") as at the close of business on the day before the Closing Date. At or immediately prior to the close of business on the day before the Closing Date, cash, cash equivalents and short-term investments valued in accordance with generally accepted accounting principles will be distributed by the Corporation to its Shareholders and all bank and other indebtedness (including capital lease obligations) owing by the Corporation and its Subsidiaries will be repaid by the Corporation and its Subsidiaries, as applicable.

(2) The Corporation will deliver to the Purchaser for its review prior to the Closing Date, a statement certified as being accurate and complete by a senior officer of the Corporation, setting out the Working Capital as at the month end before the Closing Date and setting out an estimate of the Working Capital as at the close of business on the day before the Closing Date (the "Estimated Working Capital"). The Purchase Price will be adjusted on a dollar-for-dollar basis to the extent that such Estimated Working Capital is greater than or less than Normalized Working Capital.

(3) Within 30 Business Days after the Closing Date, the Purchaser (with the Corporation's cooperation and assistance) will prepare and deliver to the Offeree Shareholders an

unaudited statement setting out (by separate line-item) the Working Capital for the Corporation and its Subsidiaries as at the close of business on the day before the Closing Date (the "Working Capital Statement"), to be prepared in a manner consistent with the accounting policies and practices of the Corporation as used in the preparation of the Financial Statements and in accordance with generally accepted accounting principles. The Offeree Shareholders and their auditors or other representatives will be entitled to review the working papers and other documentation used or prepared in connection with the preparation of, or which otherwise form the basis of, the Working Capital Statement.

(4) If the Offeree Shareholders give written notice to the Purchaser that they dispute the Working Capital Statement within 10 Business Days after the Working Capital Statement is given to the Offeree Shareholders and the parties cannot reach agreement on the Working Capital Statement within 15 Business Days after such notice of dispute is given, the dispute will be referred for determination by arbitration to a senior audit partner at the Ottawa, Ontario office of Deloitte & Touche LLP chosen by the managing partner of such office and who is acceptable to the Offeree Shareholders and the Purchaser, each acting reasonably. The determination by such arbitrator will be made within 10 Business Days of such referral and will be final and binding on the parties. The costs of the arbitrator will be borne by the party losing the majority of the amount at issue in the arbitration.

(5) If the Working Capital as determined by the parties or the arbitrator, as the case may be, exceeds the Estimated Working Capital, the Purchaser will pay the amount of the difference to the Shareholders within two Business Days after the determination together with interest on such amount at a rate per annum equal to the floating annual rate of interest established from time to time by the Royal Bank of Canada as the base rate it will use to determine rates of interest on Canadian dollar loans to customers in Canada and designated as the prime rate, plus 1% (the "Interest Rate"), computed from the Closing Date to the date of payment and the Purchase Price will be adjusted accordingly. If the Working Capital as so determined is less than the Estimated Working Capital, the Offeree Shareholders will cause the Escrow Agent to pay the amount of the difference to the Purchaser from the Working Capital Escrow Amount in Take Back Notes, and if there are insufficient Take Back Notes, cash from the Working Capital Escrow Amount within two Business Days after the determination and the Shareholders will pay in Take Back Notes or cash to the extent that there are insufficient Take Back Notes held by the Offeree Shareholders (or by the Escrow Agent) any additional amount to the Purchaser if required to pay such difference, and the Purchase Price will be adjusted accordingly. Any balance of the Working Capital Escrow Amount will be paid at such time to the Shareholders (net of any Taxes on interest required by Applicable Law to be withheld) by way of the distribution of the Take Back Notes held by the Escrow Agent.

2.04 **Payment of Purchase Price**

The Purchase Price will be payable by the Purchaser to the Shareholders in accordance with the respective portions set forth in Schedule 2.04, as follows:

(a) at the Time of Closing, the Purchaser will pay $431 million, which amount includes the Withheld Amounts as contemplated in Section 2.05, in cash by the wire transfer of immediately available funds in trust to McCarthy Tétrault LLP to an account specified by McCarthy Tétrault LLP, counsel for the Corporation, to

be distributed to the Offeree Shareholders and the Minority Shareholders, as directed by the Offeree Shareholders;

(b) at the Time of Closing, the Purchaser will deliver to the Offeree Shareholders Take Back Notes in an aggregate principal amount of $150 million, adjusted as provided in Section 2.03(2), less an aggregate principal amount of $43 million of Take Back Notes;

(c) at the Time of Closing, the Purchaser will deposit with the Escrow Agent in respect of the Indemnification Escrow Amount and the Working Capital Escrow Amount an aggregate principal amount of $43 million of Take Back Notes on behalf of the Offeree Shareholders;

(d) prior to October 1, 2007, the Purchaser will use the net proceeds, after payment of all expenses, of any equity offering to repay the Take Back Notes; provided that net proceeds will be applied (i) first to the Take Back Notes held by the Offeree Shareholders, then (ii) second to the Take Back Notes representing the Working Capital Escrow Amount, and then (iii) third to the Take Back Notes representing the Indemnification Escrow Amount;

(e) on October 1, 2007, the Purchaser will cause the lenders of the Bridge (as defined in three Commitment Letters, copies of which have been delivered by the Purchaser to the Corporation and the Offeree Shareholders) (the "Bridge Lenders") to purchase from the Shareholders an aggregate principal amount of the Take Back Notes equal to $150 million less the net proceeds, after payment of all expenses, of any equity offering completed by the Purchaser between the Closing Date and October 1, 2007 and applied to purchase Take Back Notes; provided, that if the net proceeds of such equity offerings have been applied to purchase Take Back Notes in the aggregate principal amount of at least $150 million, then the Purchaser shall not be required to cause the Bridge Lenders to purchase any Take Back Notes; further provided that proceeds from the Bridge Lenders will be applied (i) first to the Take Back Notes held by the Offeree Shareholders, then (ii) second to the Take Back Notes representing the Working Capital Escrow Amount, and then (iii) third to the Take Back Notes representing the Indemnification Escrow Amount;

(f) from and after October 1, 2007, if the Offeree Shareholders continue to hold Take Back Notes the Purchaser will use its best efforts to complete equity offerings and shall use the proceeds of any completed public offering to repay Take Back Notes; and

(g) at the time specified in Section 2.03(5), by the Purchaser or the Shareholders, as applicable, paying any adjustment to the Purchase Price pursuant to Section 2.03(5)).

2.05 **Section 116 Withholding**

Each Non-Resident Shareholder will comply with the requirements of section 116 of the Tax Act in respect of the sale and purchase of the Shares, provided that:

(a) if a certificate issued by the Minister of National Revenue pursuant to subsection 116(2) of the Tax Act in respect of the disposition of the Shares to the Purchaser, specifying a certificate limit in an amount that is not less than that Non-Resident Shareholder's portion of the Purchase Price is not delivered to the Purchaser on or before the Closing Date, the Purchaser will be entitled to withhold an amount equal to 25% of the Non-Resident Shareholder's portion of the Purchase Price payable to the Shareholders (the "Withheld Amount"), and the Purchaser will pay any such Withheld Amount to McCarthy Tétrault LLP in trust in the manner contemplated in Section 2.04(a) on the Closing Date and the amount so paid will be credited to the Purchaser as payment on account of that portion of the Purchase Price.

(b) McCarthy Tétrault LLP will cause the Withheld Amount so withheld with respect to each Non-Resident Shareholder set forth on Schedule 3.01(1)(d)(ii) to be remitted to CRA promptly following the Closing Date, but in any event not later than the 28th day after the end of the month in which the Closing Date occurs, and will invest, on behalf of each beneficial Non-Resident Shareholder set forth in Schedule 3.02(e), the Withheld Amounts with respect to such beneficial Non-Resident Shareholder in one or more investments as directed by Schroder Canada and Schroder UK, from the Closing Date until the earlier of the date on which the Withheld Amount (or relevant portion thereof) is delivered to that Non-Resident Shareholder or remitted to the CRA in accordance with this Section 2.05.

(c) If, prior to the 28th day after the end of the month in which the Closing Date occurs (or such later time before which the CRA confirms in writing that the CRA will not enforce the remittance of funds as required by subsection 116(5) of the Tax Act and that the Purchaser will not be liable for interest and penalties in respect of the late remittance of the funds withheld (the "Comfort Letter")), any Non-Resident Shareholder set forth in Schedule 3.02(e) delivers to the Purchaser (with a copy to McCarthy Tétrault LLP):

(i) a certificate issued by the Minister of National Revenue under subsection 116(2) of the Tax Act in respect of the disposition of the Shares to such beneficial Non-Resident Shareholder set forth in Schedule 3.02(e), McCarthy Tétrault LLP will promptly pay to that beneficial Non-Resident Shareholder the lesser of (i) the Withheld Amount and (ii) the Withheld Amount less the product of X and Y where X is the amount, if any, by which that Non-Resident Shareholder's portion of the Purchase Price exceeds the certificate limit specified in such certificate and Y is 25% or any other percentage specified in subsection 116(5) of the Tax Act, together with any interest earned on the Withheld Amount to the date of such payment, or

(ii) a certificate issued by the Minister of National Revenue under subsection 116(4) of the Tax Act in respect of the disposition of the Shares to the Purchaser, McCarthy Tétrault LLP will promptly pay the Withheld Amount to that beneficial Non-Resident Shareholder, together with any interest earned thereon.

(d) If McCarthy Tétrault LLP continues to hold all or a portion of the Withheld Amount on the later of the 28th day after the end of the month in which the Closing Date occurs and the time when (if the CRA has provided the Comfort Letter) the Purchaser is obliged to remit funds to the CRA, McCarthy Tétrault LLP will remit to the Receiver General for Canada the amount required to be remitted pursuant to subsection 116(5) of the Tax Act and McCarthy Tétrault LLP will pay to that Non-Resident Shareholder any remaining portion of the Withheld Amount, together with interest earned thereon, prior to such remittance.

(e) Where any amount is remitted to the CRA pursuant to this Section 2.05, McCarthy Tétrault LLP will furnish that Non-Resident Shareholder and the Purchaser with confirmation that such remittance has been made. Any such remittance will be deemed to have been paid by the Purchaser to that Non-Resident Shareholder on account of the Purchase Price.

(f) The foregoing provisions will apply *mutatis mutandis* to the amount of the Purchase Price paid to a Non-Resident Shareholder as adjusted pursuant to Section 2.03 unless a certificate issued by the Minister of National Revenue under subsection 116(4) of the Tax Act in respect of the disposition of the Shares has already been issued to the Non-Resident Shareholder and the Purchaser.

ARTICLE 3- REPRESENTATIONS AND WARRANTIES

3.01 Corporation's Representations and Warranties

The Corporation represents and warrants to the Purchaser that:

(1) *Corporate*

(a) Each of the Corporation and 1252110 Alberta Ltd. and 1252144 Alberta Ltd is a corporation duly incorporated, organized and subsisting under the laws of its jurisdiction with the corporate power to own its assets and to carry on its business and has made all material filings under all applicable corporate, securities and Taxation laws or any other Applicable Laws. The Partnership is a general partnership duly established, organized and subsisting under the laws of its jurisdiction with the power to own its assets and to carry on its business and has made all material filings under all applicable corporate, securities and Taxation laws or any other Applicable Laws.

(b) The authorized capital of the Corporation consists of an unlimited number of Class A Common Shares, of which, at the date hereof, 24,817,768 have been validly issued and are outstanding as fully paid and non-assessable, an unlimited number of Class B

Common Shares, of which, at the date hereof, 22,392,022 have been validly issued and are outstanding as fully paid and non-assessable, and an unlimited number of preferred shares issuable in series, of which none is issued and outstanding. On or prior to the Time of Closing, the Options will be exercised and an additional 2,045,625 Class A Common Shares will be issued and outstanding and the Stock Option Plan will have been terminated. At the Time of Closing, the Shares will be the only issued and outstanding shares in the capital of the Corporation;

(c) The rights, privileges, restrictions and conditions attached to the Class A Common Shares and the Class B Common Shares of the Corporation are as set out in Schedule 3.01(1)(c).

(d) (i) All of the issued and outstanding Class A Common Shares and Class B Common Shares of the Corporation are registered in the names of the Shareholders in the respective numbers set out in Schedule 3.01(1)(d)(i) and such Schedule will be updated as at the Time of Closing to indicate the registered holders of the Shares in the respective numbers held by them, and (ii) to the knowledge of the Corporation, except as set forth in Schedule 3.01(1)(d) (ii) and in any certificate delivered pursuant to Section 5.01(b), each Minority Shareholder is not a non-resident person within the meaning of section 116 of the Tax Act.

(e) The Corporation is the registered and beneficial holder of all of the issued shares of 1252110 Alberta Ltd. and 1252144 Alberta Ltd., and the only partners of the Partnership are 1252110 Alberta Ltd. and 1252144 Alberta Ltd.

(f) This Agreement constitutes a valid and legally binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization and other laws of general application limiting the enforcement of creditors' rights generally and to the fact that specific performance is an equitable remedy available only in the discretion of the court.

(g) There is no contract, option or any other right of another binding upon or which at any time in the future may become binding upon:

(i) the Corporation or its Subsidiaries to allot or issue any of the unissued shares of the Corporation or its Subsidiaries or to create any additional class of shares, except pursuant to the Stock Option Plan as set out in Schedule 3.01(1)(g)(i), and which additional shares will be issued prior to the Time of Closing and the Stock Option Plan terminated; or

(ii) the Corporation or its Subsidiaries to sell, transfer, assign, pledge, mortgage or in any other way dispose of or encumber any of the assets of the Corporation or its Subsidiaries other than sales of products pursuant to purchase orders accepted by the Corporation or its Subsidiaries in the usual and ordinary course of business.

(h) Neither the entering into nor the delivery of this Agreement nor the completion of the transactions contemplated hereby will result in the violation of:

(i) any of the provisions of the articles or by-laws of the Corporation or its Subsidiaries;

(ii) any agreement or other instrument to which the Corporation or any of its Subsidiaries is a party or by which the Corporation or any of its Subsidiaries is bound, except for the obtaining of certain consents under the Shareholders Agreement and the Voting Trust Agreement, all of which will be obtained prior to the Time of Closing; or

(iii) any Applicable Law in respect of which the Corporation or its Subsidiaries must comply, except to the extent that such violation would not reasonably be expected to limit in any material manner the operations of the Business as they are presently conducted or result in a Material Adverse Affect.

(i) Each of the Shareholders, including the Minority Shareholders is a party, whether directly or as a party to the Voting Trust Agreement, to and is bound by the provisions of the Shareholders Agreement (including for greater certainty, the provisions of Section 5.7 – Drag Along Rights, thereof). Pursuant to the Shareholders Agreement, the Minority Shareholders are required to sell to the Purchaser the Class A Shares of the Corporation held by them on the terms and conditions set forth herein, and at the Time of Closing, the Purchaser will acquire good and valid title to all of the Shares held by all of the Shareholders, including the Minority Shareholders, in each case, free and clear of all Encumbrances.

(2) Financial

(a) The books and records of the Corporation and its Subsidiaries present fairly in all material respects the consolidated financial position of the Corporation and its Subsidiaries and all material financial transactions of the Corporation and its Subsidiaries have been accurately recorded in such books and records and, to the extent possible, such books and records have been prepared in accordance with generally accepted accounting principles.

(b) The audited consolidated financial statements of the Corporation, consisting of the balance sheet and statements of income, retained earnings and cash flows for the period ended on December 31, 2006, together with the report of KPMG LLP, chartered accountants, thereon and the notes thereto (collectively, the "Audited Financial Statements"), a copy of which is attached hereto as Schedule 3.01(2)(b) present fairly in all material respects the consolidated financial position of the Corporation and its Subsidiaries as at December 31, 2006 and the results of operations and cash flows of the Corporation and its Subsidiaries for the periods presented, all in accordance with generally accepted accounting principles.

(c) The unaudited consolidated financial statements of the Corporation, consisting of the balance sheet and statements of income, retained earnings and cash flows for the period ended on the Balance Sheet Date, (collectively, the "Unaudited Financial Statements"), a copy of which is attached hereto as Schedule 3.01(2)(c) present fairly in all material respects the consolidated financial position of the Corporation and its

Subsidiaries as at the Balance Sheet Date and the results of operations and cash flows of the Corporation and its Subsidiaries for the periods presented, all in accordance with generally accepted accounting principles.

(d) The Corporation and its Subsidiaries have no accrued, contingent or other liabilities which would be required to be disclosed in a balance sheet prepared in accordance with generally accepted accounting principles, except for (i) liabilities set out or reflected in the Balance Sheet as at December 31, 2006 and in the Balance Sheet as at the Balance Sheet Date, (ii) normal liabilities that have been incurred by the Corporation and its Subsidiaries since the Balance Sheet Date in the ordinary course of business and consistent with past practices, and (iii) liabilities described in Schedule 3.01(2)(d).

(e) Except as set forth in Schedule 3.01(2)(e), since the Balance Sheet Date, the business of the Corporation and its Subsidiaries has been carried on in its usual and ordinary course and neither the Corporation nor its Subsidiaries has entered into any transaction out of the usual and ordinary course of business.

(f) Since the Balance Sheet Date there has been no Material Adverse Effect in respect of the Corporation or its Subsidiaries.

(g) No current or former director, officer, shareholder or employee of the Corporation or its Subsidiaries or any person not dealing at arm's length within the meaning of the Tax Act with any such person or with the Corporation or its Subsidiaries is indebted to the Corporation or any of its Subsidiaries, except such indebtedness as is disclosed in Schedule 3.01(2)(g).

(3) Condition of Assets

(a) The Corporation and its Subsidiaries are the owner, with good title to all assets, of all assets shown or reflected on the Balance Sheet (except for assets disposed of in the usual and ordinary course since the Balance Sheet Date) or acquired by the Corporation and its Subsidiaries since the Balance Sheet Date including the Owned Intellectual Property, free and clear of all liens, charges, encumbrances and any other rights of others other than those set out in Part II of Schedule 3.01(3)(a). Neither the Corporation nor any of its Subsidiaries now own or previously owned any real property.

(b) All machinery and equipment owned or used by the Corporation and its Subsidiaries have been properly maintained and are in good working order for the purposes of on-going operation, subject to ordinary wear and tear for machinery and equipment of comparable age.

(c) All of the Inventories, net of reserves, are of merchantable quality and reasonably fit for their usual purpose. Current Inventory levels are consistent with the level of Inventories that has been maintained in the operation of the business of the Corporation and its Subsidiaries prior to the date hereof in accordance with the operation of such business in the ordinary course.

(d) Except as set forth in Schedule 3.01(2)(d), there are no outstanding orders, notices or similar requirements relating to the Corporation or its Subsidiaries issued by any Governmental Authority and there are no matters under discussion with any Governmental Authority relating to orders, notices or similar requirements.

(e) No capital expenditures in the aggregate in excess of $5,000,000 have been made or authorized by the Corporation or its Subsidiaries since the Balance Sheet Date.

(f) Except as set forth in Schedule 3.01(3)(f), no dividends have been declared or paid on or in respect of the Shares and no other distribution on any of its securities or shares has been declared or made by the Corporation or its Subsidiaries since December 31, 2006 and all dividends which to the date hereof have been declared or paid by the Corporation or its Subsidiaries have been duly and validly declared and accrued for or paid.

(g) Except as set forth in Schedule 3.01(3)(g), the products manufactured or produced by or for the Corporation and its Subsidiaries meet, in all material respects, the specifications in all Contracts with customers of the Corporation and its Subsidiaries relating to the sale of such products. Except as set forth in Schedule 3.01(3)(g), there are no material claims against the Corporation or its Subsidiaries pursuant to any product warranty or with respect to the production or sale of defective or inferior products. All services provided by the Corporation and its Subsidiaries to its customers have been provided in accordance with, in all material respects, the terms of all contracts relating thereto.

(4) Contracts and Commitments

(a) The Corporation is not a party to any contract, agreement, lease, instrument or other commitment (whether written or oral) ("Contracts") outside the usual and ordinary course of business and is not a party to any Contract by the Corporation or its Subsidiaries extending for a period of time longer than 12 months or involving expenditures by the Corporation and its Subsidiaries in the aggregate in excess of $100,000, except such Contracts as are listed in Schedule 3.01(4)(a).

(b) Neither the Corporation nor any of its Subsidiaries is in default or breach, in any material respect, under any Contract to which it is a party and there exists no condition, event or act that, with the giving of notice or lapse of time or both, would constitute such a default or breach, and all such Contracts are, in all material respects, in good standing and in full force and effect without amendment thereto and each of the Corporation and its Subsidiaries, as the case may be, is entitled to all benefits thereunder.

(c) Except as set forth in Schedule 3.01(4)(c), neither the Corporation nor any of its Subsidiaries is a party to or bound by any guarantee, indemnification, surety or similar obligation.

(d) Except as set forth in Schedule 3.01(4)(d), neither the Corporation nor any of its Subsidiaries is a party to any lease or other Contract in the nature of a lease for real

property, whether as lessor or lessee. The current uses of each property subject to a such a lease comply, in all material respects, with Applicable Law.

(e) Except as set forth in Schedule 3.01(4)(e) neither the Corporation nor any of its Subsidiaries is a party to any Contract containing outstanding covenants or other obligations (other than customary confidentiality and non-disclosure obligations entered into in the ordinary course of business) that in any way restrict the business activity of the Corporation or its Subsidiaries or limit the freedom of the Corporation or its Subsidiaries to engage in any line of business or to compete with any person.

(f) The Corporation does not have any Subsidiaries or hold any interest in any other person other than the Subsidiaries or any agreements, options or commitments to acquire any securities of any person or to acquire or lease any real property or assets other than, in the latter case, Inventory and equipment that are to be used in the usual and ordinary course of business, except as listed in Schedule 3.01(4)(f).

(g) There is no agreement, option, understanding or commitment, or any right or privilege capable of becoming an agreement, for the purchase from the Corporation or any of its Subsidiaries of its business or any of its assets other than in the usual and ordinary course of business.

(h) Except as disclosed in Schedule 3.01(4)(h), no consent is required nor is any notice required to be given under any Contract by any party thereto or any other person in connection with the completion of the transactions contemplated by this Agreement in order to maintain the rights of the Corporation and its Subsidiaries under such Contract, in all material respects. The completion of the transactions contemplated by this Agreement will not afford any party to any of the material Contracts or any other person the right to terminate any such Contract nor will the completion of such transactions result in any material additional or more onerous obligation on the Corporation or its Subsidiaries under any Contract.

(5) Intellectual Property.

(a) Attached hereto as Schedule 3.01(5)(a) is a list of all registered trade marks, trade names, patents and copyrights, of all unregistered trade marks, trade names and copyrights and of all patent applications, trade mark registration applications and copyright registration applications, both domestic and foreign, owned or made by the Corporation or its Subsidiaries.

(b) All trade marks, trade names, patents and copyrights, both domestic and foreign, and other Intellectual Property used in or required for the proper carrying on of the business of the Corporation and its Subsidiaries are validly and beneficially owned by or licensed to the Corporation and the Subsidiaries, as the case may be, with the right to use the same, and are in good standing and duly registered in all appropriate offices to preserve the right thereof and thereto; the Employees and all consultants and independent contractors retained by the Corporation and its Subsidiaries have agreed to maintain the confidentiality of confidential Intellectual Property and have provided waivers of all moral rights in the Intellectual Property.

(c) To the knowledge of the Corporation, the conduct of the Corporation and its Subsidiaries does not infringe upon the Intellectual Property rights, domestic or foreign, of any other person, nor has the Corporation or any of its Subsidiaries received any notice of infringement. To the knowledge of the Corporation, no person has infringed the rights of the Corporation and its Subsidiaries to the Intellectual Property.

(6) Employees

(a) Neither the Corporation nor its Subsidiaries is a party to or bound by any contract or commitment to pay any management or consulting fee except as disclosed in Schedule 3.01(6)(a).

(b) Neither the Corporation nor its Subsidiaries has any written employment contract with any person whomsoever, except as disclosed in Schedule 3.01(6)(b).

(c) Schedule 3.01(6)(c) sets out:

(i) the names of all employees of the Corporation and its Subsidiaries;

(ii) their position or title;

(iii) their status (i.e., full time, part time, temporary, casual, seasonal, co-op student);

(iv) their total annual remuneration, including a breakdown of (A) salary and (B) bonus, commissions or other incentive compensation, if any;

(v) other terms and conditions of their employment (other than Benefit Plans and Compensation Policies);

(vi) [intentionally omitted];

(vii) their total length of employment including any prior employment that would affect calculation of years of service for any purpose, including statutory entitlements, contractual entitlements (express or implied) benefit entitlement or pension entitlement; and

(viii) whether any employees are on any approved or statutory leave of absence, and, if so, the reason for such absence and the expected date of return.

(d) Schedule 3.01(6)(d) sets out:

(i) the names of all consultants of the Corporation and its Subsidiaries;

(ii) whether the consultant is providing services pursuant to a written consulting contract;

(iii) the term of any contract under clause (ii) above;

(iv) notice, if any, required for the Corporation to terminate the consulting relationship without cause;

(v) the date the consultant first commenced providing services to the Corporation or the Subsidiaries;

(vi) the hourly fee of the consultant and any bonus, commissions or other incentive compensation payable to the consultant, if any ; and

(vii) the annual fees paid to the consultant for the preceding calendar year.

(e) Neither the Corporation nor its Subsidiaries is bound by or a party to any collective bargaining agreement.

(f) No trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent:

(i) holds bargaining rights with respect to any employees of the Corporation or its Subsidiaries by way of certification, interim certification, voluntary recognition, designation or successor rights;

(ii) has applied to be certified as the bargaining agent of any employees of the Corporation or its Subsidiaries; or

(iii) has applied to have the Corporation or its Subsidiaries declared a related employer or successor employer pursuant to applicable labour legislation,

(g) There are no actual, threatened or pending organizing activities of any trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent or any actual, threatened or pending unfair labour practice complaints, strikes, work stoppages, picketing, lock-outs, hand-billings, boycotts, slowdowns, arbitrations, grievances, complaints, charges or similar labour related disputes or proceedings pertaining to the Corporation or its Subsidiaries, and there have not been any such activities or disputes or proceedings within the last year, except as disclosed in Schedule 3.01(6)(g).

(h) All vacation pay for employees of the Corporation and its Subsidiaries is properly reflected and accrued in the books and accounts of the Corporation and its Subsidiaries.

(i) Since the Balance Sheet Date, except in the ordinary course of business or as required by Applicable Law and consistent with the Corporation's past practices, there have been no increases or decreases in staffing levels of the Corporation and its Subsidiaries and there have been no changes in the terms and conditions of employment of any employees of the Corporation or its Subsidiaries, including their salaries, remuneration and any other payments to them, and there have been no changes in any remuneration payable or benefits provided to any officer, director, consultant, independent or dependent contractor or agent of the Corporation or its

Subsidiaries, and the Corporation and its Subsidiaries have not agreed or otherwise become committed to change any of the foregoing since that date.

(j) The Corporation and its Subsidiaries are employing all employees of the Corporation and its Subsidiaries in compliance with all applicable Taxation, health, labour and employment laws, rules, regulations, notices, and orders.

(k) Each of the Corporation and its Subsidiaries is in compliance with all provisions of all Applicable Laws relating to occupational health and safety, including the *Occupational Health and Safety Act* (Ontario) and regulations made pursuant thereto and there are no outstanding claims, charges or orders thereunder.

(l) Each of the Corporation and its Subsidiaries is in compliance with applicable workers' compensation laws and regulations made pursuant thereto and there are no outstanding assessments, levies or penalties thereunder.

(m) Each of the Corporation and its Subsidiaries has prepared and posted an employment equity plan for all employees of the Corporation and its Subsidiaries as may be required pursuant to Applicable Laws dealing with employment equity including, the *Employment Equity Act* or the federal contractors program.

(n) The Corporation has prepared and posted a pay equity plan for all employees of the Corporation and has made all necessary adjustments pursuant to such pay equity plan in full compliance with the *Pay Equity Act* (Ontario), and the Corporation has fully disclosed to the Purchaser the terms pertaining thereto.

(7) Privacy Laws

(a) The collection, use and retention of the Personal Information by the Corporation and its Subsidiaries, the disclosure or transfer of the Personal Information by the Corporation and its Subsidiaries to any third parties and transfer of the Personal Information by the Corporation and its Subsidiaries to the Purchaser as part of the Purchaser's due diligence and as contemplated by this Agreement or any ancillary agreement complies with all Privacy Laws and is consistent with the Corporation's own Privacy Policies.

(b) There are no restrictions on the collection, use, disclosure and retention by the Corporation or its Subsidiaries of the Personal Information except as provided by Privacy Laws and the Corporation's own Privacy Policies.

(c) There are no investigations, inquiries, actions, suits, claims, demands or proceedings, whether statutory or otherwise, pending, ongoing, or to the Corporation's knowledge, threatened, with respect to the collection, use, disclosure or retention by the Corporation or its Subsidiaries of the Personal Information.

(d) No decision, judgment or order, whether statutory or otherwise, is pending or has been made, and no notice has been given pursuant to any Privacy Laws, requiring the

Corporation or its Subsidiaries to take (or to refrain from taking) any action with respect to the Personal Information.

(8) Benefit Plans

(a) Schedule 3.01(8)(a) contains a list of every benefit plan, program, agreement or arrangement (whether written or unwritten) maintained, contributed to, or provided by the Corporation or any Subsidiary thereof for the benefit of any of the employees, former employees or dependent or independent contractors of the Corporation and its Subsidiaries or their respective dependants or beneficiaries (the "Benefit Plans") including all bonus, deferred compensation, incentive compensation, share purchase, share option, stock appreciation, phantom stock, savings, profit sharing, severance or termination pay, health or other medical, life, disability or other insurance (whether insured or self-insured), supplementary unemployment benefit, pension, retirement and supplementary retirement plans, programs, agreements and arrangements, except for any statutory plans to which the Corporation is obliged to contribute or comply including the Canada/Québec Pension Plan, or plans administered pursuant to applicable federal or provincial health, worker's compensation or employment insurance legislation.

(b) Schedule 3.01(8)(b) contains a list of all compensation policies and practices of the Corporation and its Subsidiaries ("Compensation Policies") applicable to employees of the Corporation and its Subsidiaries.

(c) The Corporation has delivered to the Purchaser true, complete and up-to-date copies of all Benefit Plans and Compensation Policies and all amendments thereto together with all summary descriptions of the Benefit Plans and Compensation Policies provided to past or present participants therein.

(d) No fact, condition or circumstance exists that would materially affect the information contained in the documents provided pursuant to Section 3.01(8)(c) and, in particular, no promises or commitments have been made by the Corporation and its Subsidiaries to amend any Benefit Plan or Compensation Policy.

(e) Except as disclosed on Schedule 3.01(8)(e) neither the execution, delivery or performance of this Agreement, nor the consummation of any of the other the transactions contemplated by this Agreement, will result in any bonus, golden parachute, severance or other payment or obligation to any current or former employee or director of the Corporation or its Subsidiaries (whether or not under any Benefit Plan), materially increase the benefits payable or provided under any Benefit Plan, result in any acceleration of the time of payment or vesting of any such benefit, or increase or accelerate employer contributions thereunder.

(f) The obligations of the Corporation and its Subsidiaries to any of the Benefit Plans that are multi-employer plans are restricted to providing information and making contributions and are set out completely and accurately in the collective bargaining agreements listed in Schedule 3.01(8)(f).

(9) Environmental

(a) The business of the Corporation and its Subsidiaries, as carried on by the Corporation and its Subsidiaries, and their assets are in compliance in all material respects with all Environmental Laws and, to the knowledge of the Corporation, there are no facts that could give rise to a notice of non-compliance with any Environmental Law.

(b) Schedule 3.01(9)(b) contains a complete list of all environmental Permits used in or required to carry on the business of the Corporation and its Subsidiaries in its usual and ordinary course and such Permits are in full force and effect.

(c) The Corporation and its Subsidiaries have not used any of their facilities, or permitted them to be used, to generate, manufacture, refine, treat, transport, store, handle, dispose, transfer, produce or process Hazardous Substances except in compliance in all material respects with all Environmental Laws.

(d) Neither the Corporation nor any of its Subsidiaries has been convicted of an offence or been subjected to any judgment, injunction or other proceeding or been fined or otherwise sentenced for non-compliance with any Environmental Laws, and it has not settled any prosecution or other proceeding short of conviction in connection therewith.

(10) Taxes

(a) Except as set out in Schedule 3.01(10)(a):

(i) Each of the Corporation and its Subsidiaries has filed all Tax Returns, including any elections and designations required by or referred to in any such Tax Return, which were required to be filed by it with any Taxation Authority prior to the date hereof. All Tax Returns filed by the Corporation and its Subsidiaries are accurate and complete in all material respects;

(ii) Each of the Corporation and its Subsidiaries has withheld, and will continue until the Closing Date to withhold, any Taxes that are required by Applicable Law to be withheld and has timely paid or remitted, and will continue until the Closing Date to pay and remit, on a timely basis, the full amount of any Taxes that have been or will be withheld, to the applicable Taxation Authority;

(iii) Each of the Corporation and its Subsidiaries has paid and will continue until the Closing Date to pay all Taxes, including any amount due on or before the Closing Date, including instalments or prepayments of Taxes, which are required to have been paid to any Taxation Authority pursuant to Applicable Law, and no deficiency with respect to the payment of any Taxes or Tax instalments has been asserted against it by any Taxation Authority.

(iv) Neither the Corporation nor its Subsidiaries is a party to any agreement, waiver or arrangement with any Taxation Authority that relates to any

extension of time with respect to the filing of any Tax Return, any payment of Taxes or any assessment;

(11) International Trade Laws

(a) Except as set forth on Schedule 3.01(11)(a) and except for non-compliance that would not result in a Material Adverse Effect, the Corporation and its Subsidiaries, as applicable, are in material compliance with (i) all Applicable Laws concerning the exportation of any products, technology, technical data and services, including those administered by, without limitation, the United States Department of Commerce, the United States Department of State, and the United States Department of the Treasury; (ii) United States and international economic and trade sanctions, including those administered by the Office of Foreign Assets Control ("OFAC") of the United States Department of the Treasury; (iii) the antiboycott regulations administered by the United States Department of Commerce, and all laws and regulations administered by the Bureau of Customs and Border Protection in the United States Department of Homeland Security;

(b) Except as set forth on Schedule 3.01(11)(b) and except for non-compliance that would not result in a Material Adverse Effect, the Corporation and its Subsidiaries, as applicable, are in compliance with the United States Foreign Corrupt Practices Act and the Corruption of Foreign Public Officials Act (Canada);

(c) To the Knowledge of the Corporation, no director, officer or employee of Company or any of its Subsidiaries is identified on any of the following documents: (i) the OFAC list of "Specially Designated Nationals and Blocked Persons" ("SDNs"); (ii) the Bureau of Industry and Security of the United States Department of Commerce "Denied Persons List", "Entity List" or "Unverified List"; (iii) the Office of Defense Trade Controls of the United States Department of State "List of Debarred Parties"; (iv) the Financial Sanctions Unit of the Bank of England "Consolidated List"; (v) the Solicitor General of Canada's "Anti-Terrorism Act Listed Entities"; (vi) the Australian Department of Foreign Affairs and Trade "Charter of the United Nations (Anti-terrorism-Persons and Entities) List"; (vii) the United Nations Security Council Counter-Terrorism Committee "Consolidated List"; or (viii) European Union Commission Regulation No. 1996/2001 of October 11, 2001;

(12) General

(a) There are no actions, suits or proceedings (whether or not purportedly on behalf of the Corporation or its Subsidiaries):

(i) pending or threatened against or materially adversely affecting, or which could materially adversely affect, the Corporation or its Subsidiaries or any of their assets,

(ii) before or by any Governmental Authority,

except such actions, suits or proceedings as are disclosed in Schedule 3.01(12)(a) and or to the Corporation's knowledge, there is no valid basis for any such action, suit or proceeding.

(b) The Corporation is not conducting its business in any jurisdiction other than the Province of Ontario; the Corporation's Subsidiary, Med-Eng, Inc., is not conducting its business in any jurisdiction other than the State of New York; and the Corporation's Subsidiaries, 1252110 Alberta Ltd. and 1252144 Alberta Ltd., and the Partnership are not conducting their respective businesses in any jurisdiction other than the Province of Alberta.

(c) The Corporation is conducting its business in material compliance with all Applicable Laws of Canada and of the Province of Ontario, the Corporation's Subsidiary, Med-Eng, Inc. is conducting its business in all material respects in compliance with all Applicable Laws of the United States and of the State of New York and the Corporation's Subsidiaries, 1252110 Alberta Ltd. and 1252144 Alberta Ltd., and the Partnership are conducting their respective businesses in compliance with all applicable laws of the Province of Alberta, except in each case where any such non-compliance would not have a Material Adverse Effect. The Corporation and its Subsidiaries have or, where applicable, have caused their contractors and agents to comply with Applicable Laws in those jurisdictions where business is being carried on by or on behalf of the Corporation or its Subsidiaries with a Governmental Authority. Except as set forth in 3.01(12)(c), (i) the Corporation has not been charged with and, to the knowledge of the Corporation, the Corporation is not now under investigation with respect to, a violation of any Applicable Law, (ii) the Corporation is not a party to or bound by any order, judgment, decree, injunction or of any Governmental Authority and (c) the Corporation has filed all material reports and has all material licenses and permits required to be filed with any Governmental Authority on or before the date hereof.

(d) Attached as Schedule 3.01(12)(d) is a true and complete list of all Permits necessary or required to enable the business of the Corporation and its Subsidiaries to be carried on as now conducted and its assets to be owned, leased and operated.

(e) Attached as Schedule 3.01(12)(e) is a true and complete list of all insurance policies maintained by the Corporation and its Subsidiaries that also specifies the insurer, the amount of the coverage, the type of insurance, the policy number and any pending claims thereunder.

(f) Assuming that the Closing Date is the date of this Agreement, the Corporation together with its affiliates (as defined in the Competition Act) do not have assets in Canada that exceed $11 million or annual gross revenues from sales in, from and into Canada that exceed $30 million, in either case, as determined pursuant to section 109 of the Competition Act, provided that, for the purposes of Section 5.01(a), the assumption that the Closing Date is the date of this Agreement will not apply.

(g) The value of the assets of the Corporation and its Subsidiaries, calculated in the manner prescribed by the Investment Canada Act, is less than $281 million.

(h) The Corporation is a WTO investor within the meaning of the Investment Canada Act.

(i) To the knowledge of the Corporation, except for the Non-Resident Shareholders, none of the beneficial owners of the Shares is a non-resident person within the meaning of section 116 of the Tax Act.

(j) Schedule 3.01(12)(j) is a correct and complete list showing (i) the name of each bank in which the Corporation and its Subsidiaries has an account and the names of all persons authorized to draw on the account, and (ii) the names of all persons who hold powers of attorney from the Corporation and its Subsidiaries.

(k) Schedule 3.01(12)(k) lists the ten largest customers and the ten largest suppliers of the Corporation and its Subsidiaries (or such additional customers or suppliers of the Corporation and its Subsidiaries which are sufficient to constitute ten per cent or more of total sales or purchases, as the case may be) for the calendar years ending December 31, 2005 and December 31, 2006, and the aggregate amount which each customer was invoiced and each supplier was paid during each such calendar year. The Corporation is not aware of, nor has it received notice of, any intention on the part of any such customer or supplier to cease doing business with the Corporation and its Subsidiaries or to modify or change in any material manner any existing arrangement with the Corporation and its Subsidiaries for the purchase or supply of any products or services. The relationships of the Corporation and its Subsidiaries with each of its principal suppliers, shippers and customers are satisfactory, and there are no material unresolved disputes with any such supplier, shipper or customer.

(l) No agent, broker, investment banker, financial advisor or other firm or person engaged by the Corporation and its Subsidiaries is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement, except CIBC World Markets Inc., whose fees and expenses will be paid by the Corporation in accordance with the Corporation's agreement with such firm and such fees will included in determining the adjustment on account of Working Capital pursuant to Section 2.03.

(m) No representation or warranty or other statement made by the Corporation in this Agreement contains any untrue statement or omits to state a material fact necessary to make any of them, in light of the circumstances in which it was made, not misleading.

3.02 **Offeree Shareholders' Representations and Warranties**

Each Offeree Shareholder, for itself and not jointly, represents and warrants to the Purchaser that:

(a) The Offeree Shareholder is the registered owner of the Shares set forth opposite the name of the Offeree Shareholder in Schedule 3.01(1)(d), free and clear of all liens, charges, encumbrances and any other rights of others;

(b) The Offeree Shareholder has good and sufficient power, authority and right to enter into and deliver this Agreement and to transfer the legal and beneficial title and ownership of the Shares owned by the Offeree Shareholder to the Purchaser free and clear of all liens, charges, encumbrances and any other rights of others;

(c) Except for the Shareholders Agreement, there is no contract, option or any other right or agreement binding upon or which at any time in the future may become binding upon the Offeree Shareholder to sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of the Shares owned by the Offeree Shareholder other than pursuant to the provisions of this Agreement;

(d) Neither the entering into nor the delivery of this Agreement nor the completion of the transactions contemplated hereby by the Offeree Shareholder will result in the violation of any agreement or other instrument to which the Offeree Shareholder is a party or by which the Offeree Shareholder is bound; and

(e) Except for any Offeree Shareholder whose name is identified in Schedule 3.02(e) as a Non-Resident Shareholder, the Offeree Shareholder or the beneficial owner of the Shares it represents, is not a non-resident person within the meaning of section 116 of the Tax Act.

3.03 **Purchaser's Representations and Warranties**

The Purchaser represents and warrants to the Shareholders and the Corporation that:

(a) The Purchaser is a corporation duly incorporated, organized and subsisting under the laws of the province of Ontario.

(b) The Purchaser has good and sufficient power, authority and right to enter into and deliver this Agreement and to complete the transactions to be completed by the Purchaser contemplated hereunder.

(c) This Agreement constitutes a valid and legally binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization and other laws of general application limiting the enforcement of creditors' rights generally and to the fact that specific performance is an equitable remedy available only in the discretion of the court.

(d) Neither the entering into nor the delivery of this Agreement nor the completion of the transactions contemplated hereby by the Purchaser will result in a violation of:

(i) any of the provisions of the constating documents or by-laws of the Purchaser;

(ii) any agreement or other instrument to which the Purchaser is a party or by which the Purchaser is bound; or

(iii) any Applicable Law in respect of which the Purchaser must comply.

(e) Assuming that the Closing Date is the date of this Agreement, the Purchaser together with its affiliates (as defined in the Competition Act) does not have assets in Canada that exceed $140 million or annual gross revenues from sales in, from or into Canada that exceed $15 million, in either case, as determined pursuant to section 109 of the Competition Act, provided that, for the purposes of Section 5.02(a), the assumption that the Closing Date is the date of this Agreement will not apply.

(f) The Purchaser is a WTO investor within the meaning of the Investment Canada Act.

(g) The Purchaser has internal resources and financing commitments from responsible financial institutions (each a "Commitment Letter" and collectively, the "Commitment Letters"), copies of which have been provided to the Corporation and the Offeree Shareholders, available in connection with the acquisition of the Shares, which are in the aggregate amount sufficient to consummate the transaction contemplated hereby. There are no conditions to the funding of the financing described in the Commitment Letters other than those expressly set forth in the Commitment Letters delivered to the Corporation and the Offeree Shareholders on or prior to the date hereof (the conditions so set forth in the Commitment Letters, the "Disclosed Conditions"). No Person has any right to (i) impose, and the Purchaser no obligation to accept, any condition precedent to such financing other than the Disclosed Conditions, or (ii) reduce the amounts of the financing commitments made in the Commitment Letters. As of the date of this Agreement, each Commitment Letter is in full force and effect, in all material respects, and there has been no breach, default, action or omission to act on the part of the Purchaser, or to the Purchaser's actual knowledge, on the part of the other parties thereto, that would permit any party thereto to terminate or cancel any Commitment Letter. The financial statements of the Purchaser as of March 31, 2007 and for the period then ended, which have been previously delivered to the Corporation, fairly present, in all material respects, the financial condition and results of operation of the Purchase as of the dates and for the periods then ended in accordance with generally accepted accounting principles; and

(h) No agent, broker, investment banker, financial advisor or other firm or person engaged by the Purchaser is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement, except Genuity Capital Markets, whose fees and expenses will be paid by the Purchaser in accordance with Purchaser's agreement with such firm.

3.04 **Exclusivity of Representations and Warranties**

The representations and warranties of the Corporation, each Offeree Shareholder and the Purchaser set forth in Sections 3.01, 3.02 and 3.03, respectively, are the only representations and

warranties made by such party. THE CORPORATION AND EACH OFFEREE SHAREHOLDER SPECIFICALLY DISCLAIM ANY WARRANTY REGARDING THE FURTHER PROFITABILITY OF THE CORPORATION FOLLOWING THE CLOSING DATE. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SPECIFICALLY SET FORTH IN SECTIONS 3.01, 3.02 AND 3.03, THE CORPORATION, EACH OFFEREE SHAREHOLDER AND THE PURCHASER, RESPECTIVELY, MAKE NO REPRESENTATION , WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER.

ARTICLE 4 - COVENANTS

4.01 **Covenants of the Corporation**

(1) Except as otherwise contemplated by this Agreement or consented to in writing by the Purchaser, from the date of this Agreement until Closing, the Corporation will ensure that each of the Corporation and its Subsidiaries will:

(a) carry on their business only in the ordinary course of business consistent with past practice and shall not, other than in the ordinary course of business, enter into any transaction or take any action which if taken before the date hereof would constitute a breach of any representation, warranty or covenant contained in this Agreement;

(b) use all reasonable commercial efforts to preserve intact its business, organization and goodwill, to keep available the employees of its business as a group and to maintain satisfactory relationships with suppliers, distributors, customers and others with whom the Corporation and its Subsidiaries have business relationships;

(c) use all reasonable commercial efforts to cause its current insurance policies not to be cancelled or terminated or any other coverage thereunder to lapse, unless simultaneously with such terminations, cancellation or lapse, replacement policies underwritten by insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies, and where possible, for substantially similar premiums, are in full force and effect;

(d) promptly advise the Purchaser in writing of the occurrence of any Material Adverse Effect in respect of the Corporation or its Subsidiaries or of any facts that come to their attention which would cause any of the Corporation's representations and warranties herein contained to be untrue in any respect;

(e) not amend or waive any of the provisions of any of the employment Contracts and other arrangements for any of the employees of the Corporation and its Subsidiaries earning annual base salary in excess of $200,000, other than as required by such Contracts or arrangements;

(f) maintain the books, records and accounts of the Corporation and its Subsidiaries in the usual and ordinary course, consistent with past practice and record all transactions on a basis consistent with that practice;

(g) as soon as practicable after the date of this Agreement, and in any event no later than 30 days prior to the Closing Date, prepare and file, jointly with the Purchaser, a joint voluntary notice with the Committee on Foreign Investment in the United States (CFIUS) under the Exon-Florio amendment to the Defense Production Act of 1950, as amended (Exon-Florio), with respect to the transaction contemplated by this Agreement. The parties shall provide CFIUS with any additional or supplemental information requested by CFIUS or its member agencies during the Exon-Florio review process. The parties, in cooperation with each other, shall take all commercially reasonable steps advisable, necessary or desirable to finally and successfully complete the Exon-Florio review process as promptly as practicable; and

(h) as soon as practicable after the date of this Agreement, file the notice required by Section 122.4(b) of the United States International Traffic in Arms Regulations to be filed with the United States Department of State. The parties shall cooperate with each other, as necessary, whether prior to or following the Closing Date, to facilitate the amendment of any licenses, agreements, or other authorization under U.S. export control laws as required by the closing of this Agreement.

4.02 **Examination of Records and Assets**

The Corporation will make available to the Purchaser and its authorized representatives all data bases recorded or stored by means of any device, including in electronic form, title documents, abstracts of title, deeds, surveys, leases, certificates of trade marks and copyrights, contracts and commitments in its possession or under its control relating to any of the Corporation and its Subsidiaries, their assets or business. The Corporation will forthwith make available to the Purchaser and its authorized representatives for examination all books of account and accounting records relating to the Corporation and its Subsidiaries. The Corporation will give the Purchaser and its authorized representatives every reasonable opportunity to have access to and to inspect the assets of the Corporation and its Subsidiaries. The exercise of any rights of access or inspection by or on behalf of the Purchaser under this Section 4.02 will not affect or mitigate the covenants, representations and warranties of the Corporation or the Offeree Shareholders in this Agreement which will continue in full force and effect.

4.03 **Regulatory Matters**

Each of the Purchaser and the Corporation agree to make, if applicable, an appropriate filing pursuant to the HSR Act with respect to the transaction contemplated hereby within ten Business Days after the date of this Agreement and to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act. The Purchaser shall have responsibility for any required filing fees association with the HSR Act filing. The Purchaser and the Corporation, acting through outside counsel, agree to coordinate and cooperate fully and promptly with each other in exchanging information and providing assistance as the other party may reasonably request in connection with any government inquiries related to the transaction contemplated herein. The Corporation and the Purchaser will (i) promptly notify the other of any communication to it from any governmental entity relating to the matters that are the subject of this Agreement and (ii) to the extent practicable and permitted by law, provide copies to the other of any

information to be submitted to any governmental entity relating to the matters that are the subject of this Agreement.

4.04 **Cooperation Regarding Structure**

Between the date hereof and the Closing Date, the Purchaser and the Corporation will in good faith cooperate and work together to endeavour to structure the transaction contemplated by this Agreement in a manner which accommodates the tax, corporate and other commercial considerations of the Purchaser; provided that such structure does not adversely affect the Corporation or the Shareholders.

4.05 **Inclusion of Financial Statements and Assistance**

The Corporation consents to the Purchaser including a copy of the audited consolidated financial statements of the Corporation for the periods ended on December 31, 2005 and December 31, 2006, the Unaudited Financial Statements (as defined in Section 3.01(2)(c)) and any other financial statements required by Applicable Law, in any prospectus, registration statement, offering memorandum or other offering document of the Purchaser prepared in connection with any debt or equity financing contemplated by the Purchaser, together with such other information regarding the Corporation and the Subsidiaries as may reasonably be required to be included in any such prospectus, registration statement, offering memorandum or other offering document. The Corporation also agrees to reasonably assist the Purchaser in connection with the completion of such financing, including in connection with preparing the responses to the due diligence inquiries of the persons providing such financing and in connection with obtaining the required consents and comfort letters of the auditors and other relevant parties. The Purchaser shall on request reimburse the Corporation for all out-of-pocket expenses incurred by the Corporation in connection with providing such assistance.

4.06 **Retention Bonuses and Commissions**

The Shareholders will be responsible for (a) the retention bonuses provided for in the employment arrangements with the employees set out on Schedule 3.01(8)(e); and (b) the commissions payable to Paul Timmis provided for in his employment arrangements in respect of all sales up to the Closing Date. At the Time of Closing, the amount of the retention bonus for Paul Timmis will be deposited into an escrow account and will be disbursed in accordance with the terms of the employment arrangement between the Corporation and Paul Timmis relating to such retention bonus. In the event of a forfeiture by Paul Timmis of his entitlement for all or any portion of his retention bonus, such amount will be released from escrow and will be delivered to the Purchaser, or as the Purchaser directs.

4.07 **Purchaser Financing**

(1) The Purchaser shall use its reasonable commercial efforts to arrange and consummate the financing on substantially the terms and conditions set forth in the Commitment Letters, including using reasonable commercial efforts to (A) satisfy on a timely basis all terms, conditions, representations and warranties applicable to the Purchaser in the Commitment Letters, (B) enter into definitive agreements with respect to the financing as promptly as

practicable on terms and conditions no less certain than those contained in the Commitment Letters and (C) obtain the funds under the Commitment Letters.

(2) The Purchaser shall keep the Corporation reasonably informed with respect to all material activity concerning the status of the financing and shall give the Corporation prompt notice of any material adverse change or material delay with respect to the financing. Without limiting the foregoing, the Purchaser shall notify the Corporation promptly, and in any event within one Business Day, if at any time prior to the date of Closing (A) any Commitment Letter shall be breached in any respect or expire or be terminated for any reason or (B) any financing source that is a party to any Commitment Letter notifies Purchaser that such source no longer intends to provide financing to Purchaser on the terms set forth therein. Without the prior written consent of the Corporation, neither the Purchaser nor any of its affiliates shall knowingly take any action or omit to take any action that reasonably would be expected to impair, delay or prevent the Purchaser's ability to timely obtain the proceeds of the financing or to enter into and timely consummate any alternate financing arrangement. The Purchaser shall not, without the prior written consent of the Corporation, terminate, amend or alter, or agree to terminate, amend or alter, any Commitment Letter in a manner that reasonably would impair, delay or prevent the transactions contemplated by this Agreement.

(3) If any portion of the financing becomes unavailable on the terms and conditions contemplated in the Commitment Letters, the Purchaser shall use reasonable commercial efforts to (A) arrange alternate financing (on terms and conditions, with respect to timing and amount, no less favorable in any material respect than those contained in the Commitment Letters) and, if obtained, shall promptly provide the Corporation with a copy of the new financing commitments, (B) enter into definitive agreements with respect to any such alternate financing arrangements as promptly as practicable and (C) obtain funds under such alternate financing arrangements to the extent necessary to consummate the transactions contemplated by this Agreement without undue delay.

ARTICLE 5- CONDITIONS AND TERMINATION

5.01 Conditions for the Benefit of the Purchaser

The sale by the Shareholders and the purchase by the Purchaser of the Shares is subject to the following conditions, which are for the exclusive benefit of the Purchaser and which are to be performed or complied with at or prior to the Time of Closing:

(a) except to the extent otherwise contemplated herein, the representations and warranties of the Corporation set forth in Section 3.01 and the Offeree Shareholders set forth in Section 3.02 will be true and correct in all material respects and for this purpose all materiality qualifications in such representations and warranties will be disregarded at the Time of Closing with the same force and effect as if made at and as of such time;

(b) the Corporation shall have used reasonable commercial efforts to obtain from each of the Minority Shareholders an instrument executed by that Minority Shareholder setting forth as to that Minority Shareholder the representations and warranties in

substantially the form set forth in Section 3.02 and shall cause all such instruments so obtained to be delivered to the Purchaser;

(c) the Corporation and the Shareholders will have performed or complied with all of the obligations and covenants and conditions of this Agreement to be performed or complied with in all material respects by the Corporation or the Shareholders at or prior to the Time of Closing;

(d) any waiting period (and any extension thereof) applicable to the completion of the transaction contemplated by this Agreement under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976,* as amended, and the rules and regulations thereunder (the "HSR Act"), shall have been terminated or shall have expired, and the approvals required to consummate of the transaction contemplated by this Agreement pursuant to the antitrust laws of any other applicable jurisdiction shall have been obtained (or any applicable waiting period thereunder shall have been terminated or shall have expired) or litigation relating to the denial of such required approvals shall have terminated in favour of the approval of the transaction;

(e) the security in favour of Canadian Imperial Bank of Commerce over the property and assets of the Corporation and its Subsidiaries will have been discharged;

(f) no action or proceeding will be pending or threatened by any person to enjoin, restrict or prohibit

(i) the sale and purchase of the Shares contemplated hereby; or

(ii) the right of the Corporation and its Subsidiaries to conduct the business of the Corporation and its Subsidiaries;

(g) all required consents and approvals and notices to be obtained from or given to the applicable Governmental Authorities by the Corporation or its Subsidiaries and required to be obtained or given under any of the Permits or Contracts of the Corporation and its Subsidiaries, will have been obtained or given, as the case may be;

(h) no Material Adverse Effect in respect of the Corporation and its Subsidiaries will have occurred from the date hereof to the Time of Closing;

(i) all directors of the Corporation and its Subsidiaries specified by the Purchaser will resign;

(j) all directors of the Corporation and its Subsidiaries will release the Corporation and its Subsidiaries from any and all possible claims arising from any act, matter or thing arising at or prior to the Time of Closing except for any claim for indemnification to which a director or officer of the Corporation may be entitled;

(k) share certificates representing all of the Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in

blank, in either case by the holders of record will have been delivered to the Purchaser;

(l) the Escrow Agreement will have been signed and delivered by the parties thereto;

(m) the Shareholders Agreement, the Voting Trust Agreement, the Employee Share Purchase Plan – 2006 of the Corporation and the Stock Option Plan shall have been terminated; and

(n) all necessary steps and proceedings will have been taken to permit the Shares to be duly and regularly transferred to and registered in the name of the Purchaser.

5.02 **Conditions for the Benefit of the Shareholders**

The sale by the Shareholders and the purchase by the Purchasers of the Shares is subject to the following conditions, which are for the exclusive benefit of the Shareholders and which are to be performed or complied with at or prior to the Time of Closing:

(a) the representations and warranties of the Purchaser set forth in Section 3.03 will be true and correct in all material respects and for this purpose all materiality qualifications in such representations and warranties will be disregarded at the Time of Closing with the same force and effect as if made at and as of such time;

(b) the Corporation will release, and will cause its Subsidiaries to release, all directors of the Corporation and its Subsidiaries from any and all possible claims arising from any act, matter or thing arising at or prior to the Time of Closing;

(c) the Purchaser will have performed or complied with all of the obligations and covenants and conditions of this Agreement to be performed or complied with by the Purchaser at or prior to the Time of Closing;

(d) the Escrow Agreement will have been signed and delivered by the parties thereto;

(e) any waiting period (and any extension thereof) applicable to the completion of the transaction contemplated by this Agreement under the HSR Act shall have been terminated or shall have expired, and the approvals required to consummate of the transaction contemplated by this Agreement pursuant to the antitrust laws of any other applicable jurisdiction shall have been obtained (or any applicable waiting period thereunder shall have been terminated or shall have expired) or litigation relating to the denial of such required approvals shall have terminated in favour of the approval of the transaction; and

(f) the Purchaser will have deposited with the Escrow Agent in respect of the retention bonus of Paul Timmis described in Section 4.06(a) $19,000,000 in cash by wire transfer of immediately available funds to the Escrow Agent.

5.03 **Waiver of Condition**

The Purchaser, in the case of a condition set out in Section 5.01, and the Offeree Shareholders, in the case of a condition set out in Section 5.02, will have the exclusive right to waive the performance or compliance of such condition in whole or in part and on such terms as may be agreed upon without prejudice to any of its rights in the event of non-performance of or non-compliance with any other condition in whole or in part. Any such waiver will not constitute a waiver of any other conditions in favour of the waiving party. Such waiving party will retain the right to complete the sale and purchase of the Shares herein contemplated but will not have the right to sue the other party in respect of any breach of the other party's covenants, obligations or any inaccuracy or misrepresentation in a representation or warranty of the other party which gave rise to the non-performance of or non-compliance with the condition so waived.

5.04 **Termination**

This Agreement may be terminated, by notice given prior to or at the completion of the sale and purchase of the Shares herein contemplated:

(a) by the Offeree Shareholders or the Purchaser if a material breach of any representation, warranty, covenant, obligation or other provision of this Agreement has been committed by the other party (or the Corporation in the case of a termination by the Purchaser) and such breach has not been waived on or before the Closing Date;

(b) by the Purchaser if any of the conditions in Section 5.01 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of the Purchaser to comply with its obligations under this Agreement) and the Purchaser has not waived such condition on or before the Closing Date;

(c) by the Offeree Shareholders if any of the conditions in Section 5.02 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of the Offeree Shareholders or the Corporation to comply with their obligations under this Agreement) and the Offeree Shareholders have not waived such condition on or before the Closing Date;

(d) by written agreement of the Purchaser and the Offeree Shareholders; or

(e) by the Offeree Shareholders, if any Commitment Letter is withdrawn and an alternative financing commitment letter(s) (within the meaning of Section 4.07(3)) is not delivered by the Purchaser to the Corporation and the Offeree Shareholders within five days of such withdrawal.

5.05 **Effect of Termination**

(a) Each party's right of termination under Section 5.04 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated

pursuant to Section 5.04, all further obligations of the parties under this Agreement will terminate, except that the obligations in Sections 6.02(2) and 8.03 will survive; provided, however, that if this Agreement is terminated by a party because of a material breach of a representation or warranty, covenant, obligation or other provision of this Agreement by one of the other parties or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of such other party's failure to comply with its obligations under this Agreement including in the case of termination by the Offeree Shareholders as a result of the failure of the Purchaser to satisfy its obligations pursuant to Sections 2.01, 2.02, 2.04(a) or 2.04(b) or both, or pursuant to Section 5.04(e), the terminating party's right to pursue all legal remedies with respect to such breach will survive such termination unimpaired.

(b) In the event of the termination of this Agreement by the Offeree Shareholders or the Purchaser pursuant to Section 5.04, written notice thereof shall forthwith be given to the non-terminating parties hereto. If this Agreement is terminated and the transactions contemplated herein are abandoned as provided herein:

(i) the Purchaser will redeliver to the Corporation all documents, work papers and other material of the Corporation relating to the transactions contemplated hereby, whether obtained before or after the execution hereof; and

(ii) from and after the date of this Agreement, all confidential information received by the Purchaser with respect to the business of the Corporation shall be treated in accordance with the provisions of the Confidentiality Agreement dated May 2, 2007 between CIBC World Markets Corp., on behalf of the Corporation, and the Purchaser, which shall survive the termination of this Agreement.

ARTICLE 6- CLOSING ARRANGEMENTS

6.01 Closing

The sale and purchase of the Shares will be completed at the Time of Closing at the offices of McCarthy Tétrault LLP, 40 Elgin Street, Suite 1400, Ottawa, Ontario, K1P 5K6.

6.02 Deliveries and Confidentiality

(1) The Purchaser will ensure that the Corporation preserves all documents described in Section 4.02 for a period of six years from the Closing Date, or for such other period as is required by any Applicable Law, and will permit the Shareholders and their authorized representatives reasonable access thereto in connection with the affairs of the Shareholders.

(2) The Purchaser will not disclose to anyone or use for its own or for any purpose other than the purpose contemplated by this Agreement any confidential information concerning the Shareholders or the Corporation obtained by the Purchaser pursuant hereto, and will hold all such information in the strictest confidence.

(3) From and after the Closing Date the Shareholders will not disclose to anyone or use for any purpose, other than as required in order to permit the Shareholders to comply with any applicable laws, including laws relating to taxes, any confidential information concerning the Corporation and its Subsidiaries and will hold all such information in the strictest confidence.

6.03 **Directors' and Officers' Insurance**

(1) The Corporation will purchase a pre-paid non-cancellable run-off extension to the Corporation's current directors' and officers' insurance policy on terms and conditions no less advantageous to the directors and officers of the Corporation than those contained in the policy in effect on the date hereof, for all present and former directors and officers of the Corporation and its Subsidiaries, covering claims made prior to or within six years after the Closing Date.

(2) From and after the Closing Date, the Purchaser will, and will cause the Corporation (or its successor) to, indemnify the current and former directors and officers of the Corporation and its Subsidiaries to the fullest extent to which the Purchaser and the Corporation are permitted to indemnify such officers and directors under and in accordance with their respective charter, by-laws, Applicable Law and contracts of indemnity.

ARTICLE 7 - INDEMNIFICATION

7.01 **Survival**

All covenants, representations and warranties of each party contained in this Agreement will survive the Closing and will continue in full force and effect, subject to the provisions of this Article 7.

7.02 **Indemnification by the Corporation**

(1) Subject to the provisions of this Article 7, the Corporation will indemnify and save harmless the Purchaser and the directors, officers, employees and agents of the Purchaser (collectively, the "Purchaser Indemnitees") from and against all Claims incurred by the Purchaser directly or indirectly resulting from (i) any breach of any covenant of the Corporation contained in this Agreement, (ii) any inaccuracy or misrepresentation in any representation or warranty of the Corporation set forth in Section 3.01 or (iii) the contravention of, non-compliance with or other breach, on or before the Closing Date, by the Corporation or its Affiliates of the Teaming Agreement ("GD Teaming Agreement") between General Dynamics Armament and Technical Products ("GD") and the Corporation dated May 27, 2005, as amended.

(2) Notwithstanding any of the other provisions of this Agreement, the Corporation will not be liable to any Purchaser Indemnitee in respect of:

(a) any representation and warranty of the Corporation set forth in Section 3.01 or any contravention of, non-compliance with or other breach, on or before the Closing Date, of the GD Teaming Agreement unless any claim or demand by the Purchaser against the Corporation with respect thereto is given to the Corporation and the Offeree Shareholders by the Purchaser prior to December 21, 2008, except in the