

**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
KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS
PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.**

**SECOND REPORT OF THE MONITOR
OCTOBER 4, 2018**

A. INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT

1. On September 11, 2018 (the "**Filing Date**"), Kraus Brands Inc., Kraus Canada Ltd., Kraus Carpet Inc., Kraus Properties Inc., Kraus USA Inc., and Strudex Inc. (collectively, the "**Applicants**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to the Order of this Court granted September 11, 2018 (the "**Initial Order**"), Deloitte Restructuring Inc. ("**Deloitte**") was appointed as the Monitor in these proceedings (the "**Monitor**"). The Initial Order provided for a stay of proceedings against the Applicants through October 11, 2018 and extended the relief under the Initial Order to the partnerships (the "**Partnerships**" and together with the Applicants, the "**Kraus Group**") listed in Appendix "A" in the Pre-Filing Report (defined below). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the "**CCAA Proceedings**".

2. On September 10, 2018, Deloitte filed the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) which, among other things, described certain background information about the Kraus Group, its 13-week cash flow projection (“**Cash Flow Statement**”), and the current status of the Kraus Group’s operations.
3. On September 17, 2018, Deloitte filed the First Report of the Monitor (the “**First Report**”) which, among other things, provided the Court with information and/or updates on the Monitor’s activities to date, the Transition Services Agreement (“**TSA**”), the TPS Purchase Agreement (as defined below), proposed cash disbursements in respect of pre-filing liabilities and proposed amendments to the Initial Order, as well as the Kraus Group’s bankruptcy proceedings in the United States (“**U.S. Proceedings**”).
4. At the hearing for the Initial Order, a comeback hearing in respect of the Initial Order was set by the Court for September 18, 2018 (the “**Comeback Hearing**”). At the Comeback Hearing, the Applicants were granted an order, among other things, approving an agreement of purchase and sale dated September 10, 2018 (the “**TPS Purchase Agreement**”) between Q.E.P. Co., Inc. and Roberts Company Ltd. (collectively the “**Purchaser**”) and certain Applicants, as vendors (collectively the “**Vendor**”), and an Order vesting the Purchased Assets (as that term is defined in the TPS Purchase Agreement) in the Purchaser free and clear of liens and/or other encumbrances upon delivery of the Monitor’s Certificate.
5. A more detailed description of the Kraus Group’s business operations and background in its restructuring proceedings in the period prior to the Filing Date was provided in the

Affidavit of Chris Emmott, sworn September 10, 2018 (“**Emmott Affidavit**”) and the Pre-Filing Report.

6. Copies of the Pre-Filing Report, the Initial Order, the Amended Initial Order (defined below), the First Report, the service list in respect of the CCAA Proceedings and all other materials filed in these CCAA Proceedings are available on the Monitor’s website at <http://www.insolvencies.deloitte.ca/en-ca/kraus>.

7. The purpose of this Second Report (the “**Second Report**”) is to provide the Court with information and/or updates on the following:
 - a) The Kraus Group’s actual cash flow results for the two-week period ended September 21, 2018 as compared to the previous Cash Flow Statement attached as Appendix “E” in the Pre-Filing Report (the “**Previous Cash Flow Forecast**”), including a breakdown of pre-filing and post-filing cash disbursement amounts;

 - b) The Kraus Group’s updated cash flow forecast for the period from September 24, 2018 to January 11, 2019 (the “**Updated CCAA Cash Flow Forecast**”);

 - c) An update with respect to the TPS Business, including its operations;

 - d) Employee matters;

 - e) The proposed distribution of proceeds from the TPS Purchase Agreement to the Applicants’ senior secured lender, Wells Fargo;

- f) An update with respect to the Broadloom Business, including liquidation efforts to date and the proposed asset marketing agreement (the “**Asset Marketing Agreement**”) between the Applicants and Hilco Industrial Acquisitions Canada ULC (“**Hilco Industrial**”);
- g) Status of the U.S. Proceedings; and,
- h) The Monitor’s observations and recommendations in respect of the Kraus Group’s motion returnable October 9, 2018 seeking an extension of the Stay to January 9, 2019 (the “**Extended Stay Period**”) and certain other relief.

B. REPORT RESTRICTIONS AND SCOPE LIMITATIONS

- 8. In preparing this Second Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Kraus Group, and discussions with management of the Applicants (“**Management**”) (collectively, the “**Information**”).
- 9. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards (“**Canadian GAAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.

10. Some of the information referred to in this Second Report consists of financial projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
11. Future oriented financial information referred to in this Second Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
12. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. All terms not defined herein shall have the meanings ascribed to them in the Emmott Affidavit, the Pre-Filing Report, and the First Report.

C. ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST

13. Summarized in the following table are the Kraus Group's actual cash receipts and disbursements for the period from September 11, 2018 to September 21, 2018 (the "**Reporting Period**") as compared to the Previous Cash Flow Forecast.

Kraus Group Consolidated Cash Flow Summary Summary of Actual versus Forecast Cash Flows For the Period from Sept 11, 2018 to Sept 21, 2018 Prepared on a Consolidated Basis Unaudited (CAD \$000's)			
	Actual	Forecast	Variance
Cash Flow from Operations			
Receipts	8,189	9,138	(949)
Disbursements:			
Inventory Disbursements	(4,538)	(4,517)	(21)
Employee Related Expenses	(1,792)	(1,719)	(74)
Overhead	(130)	(334)	203
Other Pre-Filing Disbursements	(39)	-	(39)
Net Operating Cash Flow from Operations	1,688	2,569	(881)
Restructuring Costs	-	(9)	9
Interest & Forbearance Fees	-	(92)	92
Net Cash Flow before the TPS Business Sale	1,688	2,468	(779)

Note: Some totals may not add due to rounding of the underlying numbers

14. Positive net cash flow in the amount of \$1,688,000 during the Reporting Period was \$779,000 less than forecast primarily due to permanent timing differences in the collection of accounts receivable (“A/R”). A summary of the major variances follows:
- a) Receipts pertain to the collection of A/R from both the TPS and Broadloom Business. The negative variance of \$949,000 in Receipts during the Reporting Period was due in large part to an amount of \$2.3 million in A/R collected on September 10, 2018 and included in the Previous Cash Flow Forecast amount for the first week of the CCAA Proceedings;
 - b) Pursuant to the Amended and Restated Initial Order dated September 18, 2018 (“**Amended Initial Order**”), the Kraus Group was authorized to make up to \$10 million in disbursements in respect of pre-filing liabilities necessary to ensure an

uninterrupted supply of goods and services to the Kraus Group that are material to the continued operation of the TPS Business. An amount of approximately \$4.5 million in inventory disbursements during the Reporting Period related to such expenses, consistent with the Previous Cash Flow Forecast amount;

- c) There was a \$74,000 negative variance in employee related expenses do to higher than expected salary payments. Approximately \$899,000 of the total \$1.8 million in employee related expenses during the Reporting Period relates to pre-filing amounts;
- d) The \$203,000 positive variance in overhead expenses is a permanent difference due to the non-payment of pre-filing utilities and administrative expenses;
- e) The \$39,000 in other disbursements in respect of pre-filing liabilities relate to outstanding cheques that cleared the bank prior to the issuance of a stop order; and
- f) Restructuring Costs, and Interest and Forbearance Fees have a combined positive variance in the amount of \$101,000. It is expected that this variance is a timing difference only as the invoices have not been presented.

D. UPDATED CCAA CASH FLOW FORECAST

15. Management has prepared an updated CCAA cash flow forecast for the 16-week period from September 24, 2018 to January 11, 2019 (the “**Updated Cash Flow Period**”) for the purposes of projecting the estimated results of the Applicants’ operations and other

activities during the Updated Cash Flow Period. The Updated CCAA Cash Flow Forecast has been prepared for a period that reflects the stay extension sought by the Petitioners. The Updated CCAA Cash Flow Forecast in a weekly presentation is attached as **Appendix “A”** hereto, and is summarized in the table below:

Kraus Group Consolidated Cash Flow Forecast	
Amounts in CAD ('000s)	
For the 16 Week Period from Sept 22, 2018 to Jan 11, 2019	
Weekly Forecast (ending on Friday)	Total
Cash Flow from Operations	
Receipts	24,077
Disbursements:	
Inventory Disbursements	(6,581)
Employee Related Expenses	(2,956)
Overhead	(810)
Net Operating Cash Flow from Operations	13,731
Restructuring Costs	(1,339)
Interest & Forbearance Fees	(191)
Net Cash Flow before the TPS Business Sale	12,200

16. The Updated CCAA Cash Flow Forecast is presented on a weekly basis during the Updated Cash Flow Period and represents Management’s best estimate of the projected cash flow during the Updated Cash Flow Period. The Updated CCAA Cash Flow Forecast has been prepared by Management using the assumptions set out in the notes to the Updated CCAA Cash Flow Forecast (the “**Updated Assumptions**”).

17. The Monitor has reviewed the Updated CCAA Cash Flow Forecast to the standard required of a Court-appointed monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor’s cash flow statement as to its reasonableness and to file a report with the Court on the monitor’s findings. The Canadian Association of Insolvency and Restructuring Professionals’ Standards of Professional Practice include a standard for

a monitor fulfilling its statutory responsibilities under the CCAA in respect of its report on the cash flow statement.

18. In accordance with the standard, the Monitor's review of the Updated CCAA Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to the Updated CCAA Cash Flow Forecast and Updated Assumptions. Since the Updated Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Updated CCAA Cash Flow Forecast. The Monitor also reviewed the support provided by Management for the Updated Assumptions and the preparation and presentation of the Updated CCAA Cash Flow Forecast.
19. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in any material aspect, that:
 - a) The Updated Assumptions are not consistent with the purpose of the Updated CCAA Cash Flow Forecast;
 - b) As at the date of this Second Report, the Updated Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Updated CCAA Cash Flow Forecast, given the Updated Assumptions; or
 - c) The Updated CCAA Cash Flow Forecast does not reflect the Updated Assumptions.
20. The Updated CCAA Cash Flow Forecast has been prepared solely for the purposes described above, and readers of this Second Report are cautioned that it may not be appropriate for other purposes.

21. The Updated CCAA Cash Flow Forecast does not include the effect of the TPS Business sale, the net proceeds from the liquidation of the Broadloom Business machinery and equipment, or the repayment of the Wells Fargo secured debt and focused solely on the net operating cash flow from the operations of the Kraus Group. As the net proceeds of the sale of the TPS Business will be used to repay the Wells Fargo secured debt, the collection and disbursement of these funds will not have a material effect on the Updated CCAA Cash Flow Forecast.

22. As supported by the Updated CCAA Cash Flow Forecast, the Applicants have sufficient funds to satisfy their projected uses of cash during the Updated Cash Flow Period, subject to the continued access to the Wells Credit Agreement and the closing of the TPS Purchase Agreement. The \$12.2 million forecast positive cash flow during the Updated Cash Flow Period is the result of the continuation of the TPS Business in the ordinary course until October 5, 2018 and the orderly collection of accounts receivable and sale of inventory from the Broadloom Business. The Broadloom Business ceased operations on September 8, 2018.

E. TPS BUSINESS

23. On September 18, 2018, the Applicants sought and obtained an Approval and Vesting Order, among other things: (i) approving the TPS Purchase Agreement made between certain of the Applicants and the Purchaser, (ii) authorizing the Kraus Group to complete the sale of the Purchased Assets (as defined in the Purchase Agreement); and (iii) vesting

title in and to the Purchased Assets to the Purchaser subject to the filing of the Monitor's Certificate.

24. The Monitor understands that the proposed closing date of the TPS Purchase Agreement is October 5, 2018 and, upon the filing of the Monitor's Certificate, the Purchased Assets will vest in the Purchaser free and clear of all claims and encumbrances.
25. Pursuant to the TPS Purchase Agreement, the Kraus Group is required to operate the TPS Business in the ordinary course of business and maintain the TPS Business "substantially intact".
26. The Monitor has been on-site at the head offices of the Kraus Group in Waterloo, Ontario. The Monitor is of the view that the Kraus Group has been operating the TPS Business in accordance with the requirements of the TPS Purchase Agreement and the Initial Order.
27. The Monitor understands that the TSA will be executed by the Vendor and Purchaser immediately prior to closing of the TPS Purchase Agreement.

F. EMPLOYEE MATTERS

28. Management has informed the Monitor that, as of October 1, 2018, all employees' pre-filing wages and overtime have been paid. Further, all pension plan contributions and union dues deducted from employee wages at source have been paid in the ordinary course. No vacation pay accrued to September 11, 2018 has been settled. It is the Monitor's understanding that the salaried and union employees of Kraus Canada LP, Kraus Carpet

LP and Strudex LP will be paid vacation pay accrued during the six-month period immediately preceding the commencement of the CCAA Proceedings.

29. Severance and termination pay for terminated employees has not been paid. Using the estimated proceeds from the TPS Purchase Agreement and the anticipated liquidation proceeds of the Broadloom Business, there will be a significant shortfall of recoveries against the claims of the secured creditors of the Applicants. Accordingly, there will be no recoveries available to settle the claims of the unsecured creditors of the estate, including termination and severance claims of terminated employees.

G. WELLS FARGO CREDIT FACILITIES & SECURITY

Wells Fargo Indebtedness

30. Wells Fargo Capital Finance Corporation Canada (“**Wells Fargo**”) is the senior secured lender to the Kraus Group pursuant to a Credit Agreement dated August 6, 2013 between and among Wells Fargo, as lender, and Kraus Canada LP (by its general partner, Kraus Canada Ltd.), Kraus Carpet LP (by its general partner, Kraus Carpet Inc.), Kraus USA, Inc. (“**Kraus USA**”), Strudex LP and Barrett Carpet Mills Inc., as borrowers (collectively, the “**Borrowers**”), as amended by the First Amendment to Credit Agreement dated February 29, 2016, the Second Amendment to Credit Agreement dated July 6, 2016, and the Third Amendment to Credit Agreement dated February 29, 2016 (collectively, the “**Wells Fargo Credit Agreement**”, a copy of which is attached hereto as **Appendix “B”**).

31. The Wells Fargo Credit Agreement was also executed by Kraus Properties LP (by its general partner, Kraus Properties Inc.) and others as “Loan Parties” thereunder (together with the Borrowers, collectively referred to as the “**Credit Parties**”).
32. As of September 30, 2018, the total indebtedness outstanding under the Wells Fargo Credit Agreement was \$47,126,081 (the “**Wells Fargo Indebtedness**”).

Wells Fargo Security

33. As a condition precedent to the Wells Fargo Credit Agreement, as security for the Wells Fargo Indebtedness, Wells Fargo required a first priority security interest in collateral that included, among other things, any and all property, assets and undertakings of each of the Credit Parties (collectively, the “**Collateral**”).
34. As noted above, the “Vendor” under the TPS Purchase Agreement is Kraus Canada LP, Kraus Properties LP and Kraus USA. The Credit Parties have executed security and related agreements (collectively, the “**Wells Fargo Security**”) that include the following from the Vendor:
 - a) Kraus Canada LP and Kraus Canada Ltd. have executed the following agreements in favour of Wells Fargo (together, the “**Kraus Canada Security**”, copies of which are attached hereto as **Appendix “C”**):
 - i. Guarantee from Kraus Canada Ltd. dated August 6, 2013; and
 - ii. General Security Agreement.

- b) Kraus USA has executed the following agreements in favour of Wells Fargo (together, the “**Kraus USA Security**”, copies of which are attached hereto as **Appendix “D”**):
- i. Guaranty and Security Agreement dated August 6, 2013 by Kraus USA, Inc. and Barrett Carpet Mills, Inc. (predecessors of Kraus USA, Inc.);
 - ii. US Trademark Security Agreement dated August 6, 2013 by Barrett Carpet Mills, Inc. (predecessor of Kraus USA, Inc.);
 - iii. Deposit Account Control Agreement (Access Restricted Immediately) with Wells Fargo Bank, National Association dated June 24, 2014;
 - iv. UCC-1 Financing Statement No. 2013 1411736 naming Kraus USA, Inc., as debtor, and the Wells Fargo Capital Finance Corporation Canada, as secured party, filed with the Delaware Department of State on April 12, 2013;
 - v. Deed to Secure Debt and Assignment of Rents and Leases dated as of August 6, 2013, and recorded in Deed Book 05930 at page 225, Whitfield County, Georgia records;

- vi. Hazardous Materials Indemnity Agreement by and between Barrett Carpet Mills, Inc., as indemnitor, and Wells Fargo Capital Finance Corporation Canada as lender;
 - vii. UCC Financing Statement naming Barrett Carpet Mills, Inc., as debtor and the Wells Fargo Capital Finance Corporation Canada as secured party, recorded in Deed Book 05930 at page 0244, Whitfield County, Georgia records; and,
 - viii. UCC Financing Statement No. 155-2013-000443 naming Barrett Carpet Mills, Inc., as debtor, and Wells Fargo Capital Finance Corporation Canada as secured party, filed April 12, 2013, with the Clerk of Superior Court for Whitfield County, Georgia.
- c) Kraus Properties LP and Kraus Properties Inc. have executed the following agreements in favour of Wells Fargo (collectively, the “**Kraus Properties Security**”, copies of which are attached hereto as **Appendix “E”**):
- i. Guarantee from Kraus Properties LP and Kraus Properties Inc. dated August 6, 2013;
 - ii. General Security Agreement (undated) from Kraus Properties LP and Kraus Properties Inc.; and,
 - iii. Patent and Trademark Security Agreement by Kraus Properties LP dated August 6, 2013.

Red Ash Subordination

35. Pursuant to a Subordination Agreement dated August 6, 2013, as amended by a First Amendment to Subordination Agreement dated July 25, 2014, a Second Amendment to Subordination Agreement dated December 30, 2014, a Third Amendment to Subordination Agreement dated March 31, 2015 and a Fourth Amendment to Subordination Agreement dated February 29, 2016 (collectively, the “**Subordination Agreement**”, a copy of which is attached hereto as **Appendix “F”**), Red Ash agreed to postpone and subordinate its indebtedness and security in favour of the Wells Fargo Indebtedness and the Wells Fargo Security.

Opinions from Canadian & US Independent Counsel

36. The Monitor has been advised by its independent counsel, Miller Thomson in Canada as to Canadian law issues; Cole Schotz P.C. as to Delaware law issues; and James-Bates-Brannan-Groover LLP as to Georgia law issues, that, subject to the usual qualifications and assumptions, the Wells Fargo Security is valid and enforceable in respect of the Collateral included in (i) the Purchased Assets (as defined in Section 2.01 of the TPS Purchase Agreement) except as noted below, and (ii) the Property (as defined in Section 1 of the Land Purchase Agreement). Cole Schotz P.C. has informed the Monitor that the security interest on certain vehicles owned by the Kraus Group located in the U.S. was not perfected in accordance with applicable statutes. These vehicles consist of a 2002 International 9000 Truck and four Utility Trailers with model years from 1999 to 2001. The Monitor has been

informed by Kraus that the combined market value of these vehicles is less than US\$30,000.

Monitor's Recommendation

37. In light of the foregoing, the Monitor recommends that this Honourable Court authorize a distribution or distributions to Wells Fargo in an aggregate amount of up to the amount of the Wells Fargo Indebtedness.

H. STATUS OF THE BROADLOOM BUSINESS

Sales and liquidation to date

38. As described above, the Broadloom Business ceased operations on September 8, 2018 due to its dire financial circumstances and the lack of a potential going concern sale transaction for the Broadloom Business.
39. As described in paragraphs 43 through 46 of the Pre-Filing Report, an extensive sale process was undertaken for the Broadloom Business. Notwithstanding the breadth of the sale process, no going concern purchaser was secured.
40. A purchaser for a significant amount of select Broadloom inventory and tufting equipment was found and negotiations continued from September 10, 2018. These negotiations were ultimately unsuccessful and this equipment will be marketed and sold as part of the Asset Marketing Agreement (as described below).

41. The Kraus Group has continued to liquidate its Broadloom Business inventory during the course of these CCAA Proceedings. As of September 30, 2018, the Monitor notes that the Broadloom Business has sold approximately 1.0 million square yards of inventory since the Filing Date, which represents approximately 55% of the total square yards of opening inventory held as at the Filing Date.

I. ASSET MARKETING AGREEMENT

42. The Broadloom Business has machinery and equipment that has been dormant since operations ceased on September 8, 2018. This machinery and equipment was valued by Gordon Brothers on April 7, 2016 at approximately \$3.6 million in a forced liquidation scenario.
43. The Applicants and Hilco Industrial have negotiated and executed the Asset Marketing Agreement pursuant to which Hilco Industrial proposes to market and sell certain assets of the Broadloom Business during the period ending March 31, 2019.
44. The Monitor has reviewed an executed copy of the Asset Marketing Agreement, which has been agreed to by the parties. Pursuant to the Asset Marketing Agreement, the machinery and equipment of the Broadloom Business will be marketed and sold for a 16% to 18% buyer's premium and costs not to exceed \$60,000.
45. Based on the Monitor's review of its website, Hilco Industrial was founded in 2000 and has sold over \$5 billion in assets in over 53 countries. While there is no common ownership between Red Ash and Hilco Industrial, these entities can be considered affiliates. The

Monitor believes that Hilco Industrial has the experience and qualifications to successfully implement an advertising, marketing and auction plan for the sale of the Broadloom Business machinery and equipment.

46. The Monitor notes that the engagement of a professional liquidator, whose compensation is based on commission rather than a flat fee, is likely to result in the maximum net recovery to the estate.
47. Although the Monitor has not participated in these discussions, the Monitor has been informed that both Wells Fargo and Red Ash support the Asset Marketing Agreement.
48. The Monitor supports the approval of the proposed liquidation process for the Broadloom Assets including the Asset Marketing Agreement.

J. COURT PROCEEDINGS AND ORDERS IN THE UNITED STATES

49. On September 11, 2018, Kraus Carpet Inc. (the “**Foreign Representative**”) in its capacity as the authorized Foreign Representative of the Kraus Group in the CCAA Proceedings filed the Motion of Foreign Representative for Entry of Provisional and Final Orders Granting Recognition of Foreign Main Proceeding and Certain Related Relief (the “**Chapter 15 Motion**”) in the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”) seeking:
 - a) Entry of a provisional order recognizing the CCAA Proceedings as a foreign main proceeding and granting a stay of execution against the Kraus Group’s assets and

applying section 362 and 365(e) of the Bankruptcy Code on an interim basis under section 1519 of the Bankruptcy Code; and

- b) Entry of a final order recognizing the CCAA Proceedings as a foreign main proceeding and granting a stay of execution against the Kraus Group's assets and applying section 362 and 365(e) of the Bankruptcy Code under sections 1520 and 1521 of the Bankruptcy Code.

50. On September 12, 2018, the Honorable Kevin Gross of the Bankruptcy Court held a hearing and granted the Chapter 15 Motion on an interim basis and entered a Provisional Order Granting Recognition of Foreign Main Proceeding and Certain Related Relief, recognizing the CCAA Proceedings as a foreign main proceeding and granting a stay of execution against the Kraus Group's assets and applying section 362 and 365(e) of the Bankruptcy Code (the "**Provisional Order**"). The Provisional Order was attached as Appendix "B" to the First Report.

51. In addition, on September 11, 2018, the Foreign Representative in its capacity as the authorized Foreign Representative of the Kraus Group in the CCAA Proceedings filed the Motion of Foreign Representative Pursuant to Sections 105(a), 363, 365, 1501, 1507, 1520, and 1521 of the United States Bankruptcy Code, and Rules 2002, 6004, 6006, and 9014, of the Federal Rules of Bankruptcy Procedure (the "**Sale Motion**") in the Bankruptcy Court for entry of an order:

- a) Recognizing and enforcing the approval and vesting order, if granted;

- b) Authorizing the sale of the Kraus Group's TPS Business free and clear of any and all liens, claims, encumbrances and other interests; and
 - c) Granting related relief.
52. On September 12, 2018, the Foreign Representative in its capacity as the authorized Foreign Representative of the Kraus Group in the CCAA Proceedings filed and caused to be served a notice of the hearing on and the objection deadline for the Sale Motion. Objections to the Sale Motion were due on September 26, 2018 at 4:00 p.m., and the hearing on the Sale Motion was scheduled for October 3, 2018 at 9:00 a.m.
53. On September 20, 2018, the Foreign Representative in its capacity as the authorized Foreign Representative of the Kraus Group in the CCAA Proceedings filed and caused to be served a supplemental notice attaching a copy of the Approval and Vesting Order, a substantially unredacted copy of the TPS Agreement and the Dalton Premises Purchase and Sale Agreement.
54. No objections were made to the Sale Motion. Consequently, on October 1, 2018, the Bankruptcy Court cancelled the hearing on the Sale Motion scheduled for October 3, 2018 and entered:
- a) an Order Granting Motion of Foreign Representative for Entry of an Order (I) Recognizing and Enforcing the Approval and Vesting order (II) Authorizing the Sale of the Debtors' TPS Business Free and Clear of Any and All Liens, Claims,

Encumbrances, and Other Interests, and (III) Granting Related Relief (“**Sale Order**”); and,

- b) a Final Order Granting Recognition of Foreign Main Proceeding and Certain Related Relief (“**Recognition Order**”).

55. Copies of the Sale Order and Recognition Order are attached as **Appendix “G”**.

K. APPROVAL OF FEES, REPORTS AND ACTIVITIES

56. The Monitor and Miller Thomson have maintained records of their professional time and costs. The Monitor now requests approval of its fees and disbursements for the period of September 11, 2018 to September 21, 2018 and the fees and disbursements for its legal counsel for the period of September 11, 2018 to September 30, 2018.

57. The total fees and disbursements of the Monitor for the period of September 11, 2018 to September 21, 2018 total \$128,734.27, including fees in the amount of \$104,307.50, expenses of \$9,616.63 and Harmonized Sales Tax (“**HST**”) of \$14,810.14, as detailed in the Affidavit of Paul Casey sworn October 3, 2018 (the “**Casey Affidavit**”), a copy of which has been attached as **Appendix “H”**.

58. The total fees and disbursements of Miller Thomson for the period of September 11, 2018 to September 30, 2018 total \$43,528.17, including fees and disbursements in the amount of \$38,520.50, plus HST in the amount of \$5,007.67, as detailed in the Affidavit of Alina

Stoica sworn October 3, 2018 (the “**Stoica Affidavit**”), a copy of which has been attached as **Appendix “I”**.

59. The Monitor respectfully submits that the fees and disbursements of the Monitor and its counsel, as set out in the Casey Affidavit and the Stoica Affidavit (together, the “**Fee Affidavits**”), are reasonable in the circumstances and have been validly incurred in accordance with the provisions of the Initial Order. Accordingly, the Monitor respectfully requests the approval of the fees and disbursements of the Monitor and its counsel, as set out in the Fee Affidavits.
60. The activities and conduct of the Monitor in connection with the CCAA Proceedings are described in the First Report and this Second Report. The Monitor is requesting approval of the First Report and the Second Report and the activities and conduct of the Monitor as described in each.

L. MONITOR’S OBSERVATIONS AND RECOMMENDATIONS

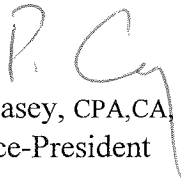
61. In the Monitor’s opinion, the Kraus Group is acting in good faith and with due diligence in accordance with the terms of the Initial Order in an effort to maximise the return to its creditors. To date, progress has been made to continue the operations of the TPS Business in the ordinary course, to institute programs to sell the finished goods inventory of the Broadloom Business, and to take steps to close the TPS Purchase Agreement and plan the orderly liquidation of the remaining assets of the Broadloom Business.
62. The Kraus Group is seeking the Court’s approval of:

- a) the Asset Marketing Agreement and the transactions contemplated thereunder;
- b) the distribution in an aggregate amount of up to the amount of the Wells Fargo Indebtedness from the proceeds of the TPS Purchase Agreement, the Asset Marketing Agreement, and other realizations to Wells Fargo in repayment of amounts owing by the Kraus Group relating advances made under the Wells Credit Agreement;
- c) the extension of the Stay Period (as defined in paragraph 14 of the Initial Order), as amended and restated by order dated September 18, 2018, to and including January 9, 2019; and,
- d) the approval of the activities and conduct of the Monitor described in the First Report and the Second Report, and the fees and disbursements of the Monitor and its counsel to date.

63. For the reasons outlined herein, the Monitor recommends that the Court grant the relief sought by the Applicants.

All of which is respectfully submitted this 4th day of October, 2018.

**Deloitte Restructuring Inc.,
solely in its capacity as Court-appointed Monitor
of the Kraus Group and not in its personal capacity**

Per: 
Paul M. Casey, CPA, CA, FCIRP, LIT
Senior Vice-President

Appendix "A"

Updated CCAA Cash Flow Forecast

Kraus Group Consolidated Cash Flow Forecast

Amounts in CAD ('000s)

For the 16 Week Period from Sept 22, 2018 to Jan 11, 2019

Weekly Forecast (ending on Friday)

	28-Sep-18	5-Oct-18	12-Oct-18	19-Oct-18	26-Oct-18	2-Nov-18	9-Nov-18	16-Nov-18	23-Nov-18	30-Nov-18	7-Dec-18	14-Dec-18	21-Dec-18	28-Dec-18	4-Jan-19	11-Jan-19	Total
Cash Flow from Operations																	
Receipts	3,720	4,357	1,746	1,541	2,583	1,610	1,757	1,649	2,197	1,561	778	579	-	-	-	-	24,077
Disbursements:																	
Inventory Disbursements	(2,281)	(3,397)	(88)	(48)	(45)	(598)	(47)	(15)	-	-	(63)	-	-	-	-	-	(6,581)
Employee Related Expenses	(526)	(632)	(293)	(888)	(190)	(134)	(63)	(59)	(53)	(54)	(38)	(12)	(10)	(5)	-	-	(2,956)
Overhead	(195)	(317)	(28)	(5)	(38)	(35)	(28)	(5)	(28)	(15)	(48)	(5)	(18)	(15)	(25)	(5)	(810)
Net Operating Cash Flow from Operations	718	12	1,336	600	2,310	843	1,620	1,570	2,116	1,493	629	562	(28)	(20)	(25)	(5)	13,731
Restructuring Costs	(7)	(6)	(1,002)	(32)	(27)	(31)	(27)	(32)	(27)	(31)	(27)	(32)	(27)	(31)	-	-	(1,339)
Interest & Forbearance Fees	-	(56)	(24)	(23)	(20)	(16)	(13)	(13)	(13)	(13)	-	-	-	-	-	-	(191)
Net Cash Flow before the TPS Business Sale	710	(50)	310	544	2,263	796	1,580	1,525	2,076	1,449	602	530	(55)	(51)	(25)	(5)	12,200

Notes

- 1) The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents the best estimate of Management of the projected cash flow during the Cash Flow Period.
- 2) Forecast amounts denominated in U.S. dollars are converted to Canadian dollars at a rate of CAD 1.2945:1 USD.
- 3) The following key assumptions are incorporated into the Cash Flow Statement:
 - a) This Cash Flow Statement has been compiled using Management's internal entity by entity Cash Flow Reports which have been consistently used and fine-tuned over the past 18 months.
 - b) The sale of the TPS Business is assumed to close on October 5, 2018 and will result in the Purchaser acquiring the net working capital of the TPS Business for its net book value along with the property located in Dalton, USA. The TPS business is forecast to operate as normal until October 5, 2018, when their operations will be removed from the Cash Flow Statement.
 - c) The Broadloom Manufacturing Business ceased operations as of September 8, 2018. Employee wages were paid in full up until September 8, 2018 and all inventory purchases will cease as of the filing date. Certain employee related and overhead expenses have and will continue post filing.
- 4) Forecast Receipts have been modelled based on historical sales and collection averages and assume the cessation of all sales from the TPS Business after October 5, 2018, whilst the residual Carpet Inventory is forecast to be fully liquidated by November 9, 2018 through some retained employees.
- 5) Inventory Disbursements are required during the pre-close period of the TPS transaction in order to continue the business as a going concern. These purchases will end once the TPS transaction closes. No purchases are forecast for the Broadloom business.
- 6) Employee related expenses include salary, commissions, remittances and benefit payments for the TPS and Broadloom employees that are to remain post CCAA filing. All employees will be paid in full for wages up to September 11, 2018. It is assumed that the employees related to the TPS Business will continue to be paid in the normal course up to October 5, 2018 in order to maintain the business as a going concern prior to the sale.
- 7) Overhead disbursements include rent, property taxes, utilities and other administrative expenses necessary for continuing to run the TPS business as a going concern and facilitate the CCAA process.
- 8) Restructuring Costs comprise legal and financial advisor fees associated with the CCAA proceedings and are based on estimates provided by the advisors.

Appendix “B”

Credit Agreement and Amendments

CREDIT AGREEMENT

by and among

**WELLS FARGO CAPITAL FINANCE CORPORATION CANADA
as Lender and Agent for its Affiliates and Assigns**

and

**KRAUS CANADA LP,
STRUDEX LP,
KRAUS CARPET LP,
KRAUS USA INC. and
BARRETT CARPET MILLS INC.
as Borrowers**

and

**The Other Persons Party Hereto
That Are Designated As Credit Parties**

August 6, 2013

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT (the “**Agreement**”) dated with effect as of August 6, 2013, is entered into by and among:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA,

An Ontario corporation, in its capacity as lender and agent for its Affiliates and assigns (“**Lender**”),

KRAUS CANADA LP, an Ontario limited partnership, as a Canadian borrower (“**Kraus CAD**”),

STRUDEX LP, an Ontario limited partnership, as a Canadian borrower (“**Strudex**”),

KRAUS CARPET LP, an Ontario limited partnership, as a Canadian borrower (together with Kraus CAD and Strudex, the “**Canadian Operating Companies**” or the “**CAD Borrowers**”; and each individually, a “**CAD Operating Company**”, or a “**CAD Borrower**”),

KRAUS USA, INC., a Delaware corporation, as a US borrower (“**Kraus USA**”),

BARRETT CARPET MILLS, INC., a Georgia corporation, as a US borrower (“**Barrett**”;

and together with Kraus USA, the “**US Operating Companies**” or the “**US Borrowers**”; and each individually, a “**US Operating Company**” or a “**US Borrower**”; and together with the CAD Borrowers, collectively, the “**Borrowers**” and each individually, a “**Borrower**”),

NORTHSTATE CARPET MILLS PTY LTD., ACN 010 558 540, a Commonwealth of Australia limited company (the “**AUS Operating Company**”),

and the other Persons designated as “**Credit Parties**” on the signature pages hereof.

WITNESSETH:

WHEREAS, Lender is willing to make certain loans and provide certain financial accommodations to Borrowers on the terms and conditions set forth herein and Lender is willing to act as agent for its Affiliates and assigns on the terms and conditions set forth herein;

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1 - DEFINITIONS

For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

“**Accounts**” shall mean all present and future rights to payment for goods sold or leased or for services rendered, and whether or not earned by performance.

“**Affiliate**” shall mean, with respect to a specified Person, any other Person (a) which directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such specified person; (b) which beneficially owns or holds 10% or more of any class of the Voting Stock or other equity interest of such specified person; or (c) of which 10% or more of the Voting Stock or other equity interest is beneficially owned or held by such specified person or a Subsidiary of such specified person.

“**Agent Payment Account**” shall mean (a) for funds delivered by a Canadian Operating Company in Canadian Dollars and in US dollars at accounts of Lender at Toronto Dominion Bank, Toronto, Ontario, (b) for funds delivered by a US Operating Company in US Dollars at accounts of Lender at Toronto Dominion Bank or Lender for the first 90 days from the date hereof and only Lender thereafter, and (c) for funds delivered by AUS Operating Company in AUD\$ at accounts of Lender at Australia and New Zealand Banking Group Limited ABN; in each case, in accordance with the Account information and wire instructions set out on Schedule 1.0 hereto, or such other account as Lender may from time to time designate as the Agent Payment Account for purposes of this Agreement and the other Financing Agreements.

“**Applicable Law**” means any present or future Law relating or applicable to any Person, property, transaction, event, or other matter (including any interpretation of Law by any Governmental Authority).

“**Applicable Margin**” shall mean:

- (a) as to the Interest Rate for U.S. Prime Rate Loans, 0.25% per annum;
- (b) as to the Interest Rate for Canadian Prime Rate Loans margined against all eligible assets other than the Waterloo Property, 0.25% per annum, and as to the Interest Rate for Canadian Prime Rate Loans margined against the Waterloo Property (which should be deemed to be fully funded at all times unless and until Availability in respect thereof is reduced to zero), 1.25% per annum;
- (c) as to the Interest Rate for LIBOR Rate Loans, 2.75% per annum; and
- (d) as to the Interest Rate for BA Rate Loans, 2.0% per annum.

“**Assignment and Acceptance**” shall mean an Assignment and Acceptance in form and substance acceptable to Lender delivered to Lender in connection with an assignment of Lender’s interest hereunder in accordance with the provisions hereof.

“**AUD Dollars**” and the sign “**AUDS**” shall mean the lawful money of the Commonwealth of Australia.

“**Australian Law(s)**” shall mean any and all laws of the Commonwealth of Australia and all states and territories of the Commonwealth of Australia.

“**Australian PPSA**” means the *Personal Property Securities Act 2009* (Commonwealth of Australia).

“**Australian Real Property**” means any and all real property now owned by the AUS Operating Company or any of its Affiliates.

“**Australian Sale Proceeds**” has the meaning specified in Section 9.7(b)(ii).

“**Availability**” shall mean, as to each of, the Canadian Operating Companies (collectively), the AUS Operating Company, and the US Operating Companies (collectively), at any time, the amount equal to the sum of:

- (a) up to 85% of uninsured, and 90% of insured to the satisfaction of Lender, of the CAD Dollar Equivalent of the Net Amount of Eligible Accounts of the Canadian Operating Companies and the US Operating Companies; plus
- (b) up to 85% of the CAD Dollar Equivalent of the Net Amount of Eligible Accounts of the AUS Operating Company; plus
- (c) up to the lesser of the amount of \$3,000,000 (which amount shall be permanently reduced by \$50,000 per month commencing on September 1, 2013) and 13% of the forced liquidation value of the Waterloo Property; plus
- (d) the lesser of:
 - (i) up to 65% of the CAD Dollar Equivalent of the Value of Eligible Inventory of the Operating Companies; or
 - (ii) up to 90% of the CAD Dollar Equivalent of the NOLV of Eligible Inventory of the Canadian Operating Companies and the US Operating Companies; or
 - (iii) prior to Lender’s receipt of a satisfactory appraisal, 44% of finished goods and 24% of raw materials, and after Lender’s receipt of a satisfactory appraisal 70%, of the CAD Dollar Equivalent of NOLV of Eligible Inventory of the AUS Operating Company;
 - (iv) the CAD Dollar Equivalent of \$1,250,000 in respect of the AUS Operating Company; or
 - (v) the CAD Dollar Equivalent of \$2,000,000 in respect of all Eligible In-Transit Inventory; or

- (vi) the CAD Dollar Equivalent of \$3,500,000 in respect of all raw materials (including, Eligible Greige Goods) Eligible Inventory; or
- (vii) the CAD Dollar Equivalent of \$30,000,000 in respect of all Eligible Inventory; less
- (e) a permanent availability block of CAD\$250,000 in respect of the AUS Operating Company; less
- (f) any Reserves, applicable to such Operating Companies;

provided that the aggregate “*Availability*” in respect of the AUS Operating Company pursuant to (b), (d)(iii), (d)(iv), (e) and (f) above, shall be limited at all times to the CAD Dollar Equivalent of \$2,500,000.

“**BA Rate**” means, with respect to any term applicable to a “**BA Rate Loan**”, the rate determined by the Lender by reference to the average discount rate as quoted for bankers’ acceptances in Canadian Dollars for such term on Reuters Screen CDOR Page determined at or about 10:00 a.m. (Toronto time) on the first day of the applicable term and if for any reason the discount rate for a particular term is not quoted on Reuters Screen CDOR Page, the rate determined by the Lender by reference to the arithmetic average of the actual discount rates for bankers’ acceptance for such term quoted by one or several major Canadian Schedule 1 Chartered Banks as determined by the Lender, at or about 10:00 a.m. (Toronto time) on the first day of the applicable term. “**BA Rate Loans**” shall mean any Loans or portion thereof denominated in Canadian Dollars and on which interest is payable based on the BA Rate in accordance with the terms hereof.

“**BIA**” shall mean the *Bankruptcy and Insolvency Act (Canada)*, as amended, supplemented, restated and superseded, in whole or in part, from time to time.

“**Blocked Accounts**” shall have the meaning set forth in Section 6.3 hereof.

“**Board of Governors**” shall mean the Board of Governors of the Federal Reserve System of the United States.

“**Borrower Agent**” shall mean Kraus CAD, its successors and assigns.

“**Borrowing Base**” shall mean collectively, at any time, the amount equal to the aggregate Availability for the Operating Companies.

“**Business Day**” shall mean any day other than a Saturday, Sunday, or other day on which commercial banks are authorized or required to close under the laws of the State of New York, the Commonwealth of Australia or the Province of Ontario, and a day on which the Canadian Reference Bank and is open for the transaction of business, except that if a determination of a Business Day shall relate to any LIBOR Rate Loans, the term Business Day shall also exclude any day on which banks are closed for dealings in dollar deposits in the London interbank market or other applicable LIBOR Rate market.

“Canadian Dollar Amount” or **“CAD Dollar Equivalent”** shall mean, at any time, as to any amount denominated in any currency other than Canadian Dollars, including AUD Dollars and US Dollars, the equivalent amount in CAD Dollars as determined by Lender at such time on the basis of the Spot Rate for the purchase of CAD Dollars with such currency.

“Canadian Dollars”, **“CAD Dollars”**, **“Dollars”**, **“CADS”** and **“\$”** shall mean lawful money of Canada.

“Canadian Pension Plan” shall mean any plan, program or arrangement that is a pension benefit, savings or retirement compensation plan for the purposes of any applicable pension benefits legislation or any tax laws of Canada or a Province thereof (including without limitation the *Income Tax Act* (Canada) or the *Pension Benefit Act* (Ontario)), whether or not registered under any such laws, which is maintained, sponsored or administered or contributed to by, or to which there is or may be an obligation to contribute by, any Canadian Operating Company in respect of any Person’s employment in Canada with such Canadian Operating Company.

“Canadian Pension Plan Event” shall mean (a) the existence of any unfunded liability or windup or withdrawal liability, including contingent withdrawal or windup liability, or any solvency deficiency in respect of any Canadian Pension Plan, (b) the whole or partial termination or windup of any Canadian Pension Plan or occurrence of any act, event or circumstance which could give rise to the whole or partial termination or windup of any Canadian Pension Plan, (c) the failure to make any contribution or remittance in respect of any Canadian Pension Plan when due, (d) the failure to file any report, actuarial valuation, return, statement or other document, when due, in respect of any Canadian Pension Plan, (e) the existence of any Lien except for current contribution amounts not due in connection with any Canadian Pension Plan, or (f) the establishment or commencement to contribute to any Canadian Pension Plan not in existence on the date thereof.

“Canadian Prime Rate” shall mean, at any time, the greater of (a) the annual interest rate from time to time publicly announced by the Canadian Reference Bank as its prime rate in effect for determining interest rates on Canadian Dollar denominated commercial loans in Canada; and (b) the annual rate of interest equal to the sum of (i) the CDOR Rate at such time, and (ii) 1% per annum.

“Canadian Prime Rate Loans” shall mean any Loans or portions thereof denominated in Canadian Dollars and on which interest is payable based on the Canadian Prime Rate in accordance with the terms hereof.

“Canadian Reference Bank” shall mean Toronto Dominion Bank, or its successors and assigns, or such other bank as Lender may from time to time designate, in its reasonable credit discretion.

“Capital Expenditures” shall mean, for any fiscal period, any amounts accruing or paid in respect of any purchase or other acquisition for value of capital assets, and for greater

certainty, excludes amounts expended in respect of the normal repair and maintenance of capital assets in the ordinary course of business.

“Capital Leases” shall mean, as applied to any Person, any lease of (or any agreement conveying the right to use) any property (whether real, personal or mixed) by such Person as lessee which in accordance with GAAP, is required to be reflected as a liability on the balance sheet of such Person.

“Capital Stock” shall mean, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person’s capital stock, partnership interests or limited liability company interests at any time outstanding, and any and all rights, warrants or options exchangeable for or convertible into such capital stock or other interests (but excluding any debt security that is exchangeable for or convertible into such capital stock).

“Cash Equivalents” shall mean, at any time, (a) any evidence of Indebtedness with a maturity date of 360 days or less issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof; provided that, the full faith and credit of the United States of America is pledged in support thereof; (b) certificates of deposit or bankers’ acceptances with a maturity of 360 days or less of any financial institution that is a member of the Federal Reserve System having combined capital and surplus and undivided profits of not less than \$250,000,000; (c) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued or unconditionally guaranteed by the United States of America or issued by any governmental agency thereof and backed by the full faith and credit to the United States of America, in each case maturing within 360 days or less from the date of acquisition; provided that, the terms of such agreements comply with the guidelines set forth in the Federal Financial Agreements of Depository Institutions with Securities Dealers and Others, as adopted by the Comptroller of the Currency on October 31, 1985; (d) investments in obligations issued by the Government of Canada, or an instrumentality or agency of Canada, maturing within 365 days of the date of acquisition of such obligation, and guaranteed fully as to principal, premium, if any, and interest by the Government of Canada; (e) investments in certificates of deposit issued or acceptances accepted by or guaranteed by any bank to which the Bank Act (Canada) applies or by any company licensed to carry on the business of a trust company in one or more provinces of Canada with a maturity of 365 days or less; (f) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued or unconditionally guaranteed by the Government of Canada or issued by any governmental agency thereof and backed by the full faith and credit of the Government of Canada, in each case maturing within 365 days or less from the date of acquisition; (g) investments in money market funds and mutual funds which invest substantially all of their assets in securities of the types described in clauses (a) through (f) above.

“Cash Management Products” shall mean any one or more of the following types of services or facilities extended to any Credit Party or Red Ash by Lender or any Affiliate of Lender in reliance on Lender’s agreement to indemnify such Affiliate: (i) Automated Clearing House (ACH) transactions and other similar money transfer services; (ii) cash

management, including controlled disbursement and lockbox services; (iii) establishing and maintaining deposit accounts; and (iv) credit cards or stored value cards.

“**CCAA**” shall mean the *Companies’ Creditors Arrangement Act* (Canada), as amended, supplemented, restated and superseded, in whole or part, from time to time.

“**CDOR Rate**” shall mean, on any day, the annual rate of interest which is the rate based on an average thirty (30) day rate applicable to Canadian Dollar bankers’ acceptances appearing on the “*Reuters Screen CDOR Page*” (as defined in the International Swaps Derivatives Association definitions, as modified and amended from time to time) as of 10:00 a.m. Toronto time on such day; provided, that, if such rate does not appear on the Reuters Screen CDOR Page as contemplated, then the CDOR Rate on any day shall be the thirty (30) day rate applicable to Canadian Dollar bankers’ acceptances quoted by any major Schedule I chartered bank selected by Lender, acting reasonably, as of 10:00 a.m. Toronto time on such day.

“**Change in Law**” means the coming into effect or repeal (without re-enactment or consolidation) of any Applicable Law, or any amendment or variation of any Applicable Law, including any judgement of a relevant court of law which changes binding precedent in any applicable jurisdiction in each case after the date hereof.

“**Change of Control**” means (i) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group of persons acting jointly or otherwise in concert, of equity securities representing more than 49% of the aggregate ordinary voting power represented by the issued and outstanding equity securities of the applicable Person; (ii) the occupation of a majority of the seats (other than vacant seats) on the board of directors of the applicable Person, or (iii) the acquisition of direct or indirect Control of the applicable Person by any person or group of persons acting jointly or otherwise in concert. For certainty, in the case of Pinnacle Capital Resources ULC and Red Ash, there will not be a Change of Control if the person(s) acquiring Control are Controlled by the same person(s) as the person(s) losing Control provided Lender receives any new share certificates, stock transfers or other related documents it reasonably requires.

“**Code**” shall mean, as the context requires, either (a) the Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto, or (b) the *Income Tax Act* (Canada), as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

“**Collateral**” shall mean, collectively, any and all property, assets and undertakings of any nature and kind whatsoever and wherever located of any of the Credit Parties, and Red Ash respecting the shares it holds in the capital of the Credit Parties, and any property and assets which is the subject matter of any other Financing Agreement and/or Lien in favour of Lender but shall expressly exclude the Australian Real Property.

“Collateral Access Agreement” shall mean an agreement in writing, in form and substance satisfactory to Lender, from any warehouseman, bailee or lessor of premises to any Operating Company, or any other person (other than an Operating Company) to whom any Collateral (including Inventory, Equipment, bills of lading or other documents of title) is consigned or who has custody, control or possession of any such Collateral or is otherwise the owner or operator of any premises on which any of such Collateral is located, pursuant to which such lessor, consignee, processor or other person, *inter alia*, acknowledges the Lien of Lender in such Collateral, agrees to waive, or subordinate to the reasonable satisfaction of Lender, any and all claims such lessor, consignee, processor or other person may, at any time, have against such Collateral, whether for processing, storage or otherwise, and agrees to permit Lender access to, and the right to remain on, the premises of such lessor, consignee or other person so as to exercise Lender’s rights and remedies and otherwise deal with such Collateral and, in the case of any consignee, processor or other person who at any time has custody, control or possession of any Collateral, acknowledges that it holds and will hold possession of the Collateral for the benefit of Lender and agrees to follow all instructions of Lender with respect thereto.

“Control” means (a) with respect to any specified person (other than the AUS Operating Company), the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and (b) in respect of the AUS Operating Company, has the meaning given to “control” in the Corporations Act; and the terms **“Controlled”** and **“Controlling”** have corresponding meanings.

“Controller” has the meaning given in the Corporations Act.

“Corporations Act” means the *Corporations Act 2001* (Commonwealth of Australia).

“Credit Parties” shall mean, collectively, the Borrowers, the AUS Operating Company and the Loan Parties but for greater certainty not Red Ash.

“Daily Three Month LIBOR” means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a three month period. When interest is determined in relation to Daily Three Month LIBOR, each change in the interest rate shall become effective each Business Day that Lender determines that Daily Three Month LIBOR has changed.

“Default” shall mean an act, condition or event which with notice or passage of time or both would constitute an Event of Default.

“Deposit Account Control Agreement” shall mean an agreement in writing, in form and substance satisfactory to Lender, by and among Lender, an Operating Company and any bank at which any Deposit Account of such Operating Company is at any time maintained which provides that such bank will comply with instructions originated by Lender directing disposition of the funds in the Deposit Account without further consent by such Operating Company and such other terms and conditions as Lender may reasonably require.

“Disposition” shall mean any transaction, or series of transactions, pursuant to which any Credit Party or Red Ash or any of its Subsidiaries sells, assigns, transfers, leases or otherwise disposes of any Collateral (whether now owned or hereafter acquired) to any other Person (other than another Credit Party or Red Ash), in each case, whether or not the consideration therefor consists of cash, securities or other assets (but excluding any Event of Loss constituting a disposition of assets and any disposition of Inventory in the ordinary course of business or other assets permitted hereunder).

“Distributions” means (i) any dividend or other distribution, direct or indirect, on account of any equity units or shares of any class of any Person; (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition by any Person for value, direct or indirect, of any equity units or shares in its own capital (other than any redemption, retirement, sinking fund or similar payment by way of issuance of equity units or shares); (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire any equity units or shares in its own capital; (iv) any loans or advances or transfers of any assets to Royal Scot Floor Covering Dist. LLC by any Credit Party; and (v) management fees or bonuses or comparable payment to any affiliate of any Person.

“Domestic Subsidiary” of any Person shall mean any Subsidiary of such Person incorporated or organized in Canada or any Province thereof, the United States or any State thereof or the District of Columbia.

“EBITDA” shall mean, as to any Person, with respect to any period, an amount equal to the Net Income of such Person for such period, plus, to the extent deducted in the computation of Net Income of such Person in such period, all in accordance with GAAP:

- (a) depreciation, amortization and other non-cash charges not relating to current assets;
- (b) interest expense;
- (c) extraordinary, unusual and non-recurring losses that are pre-approved by Lender in writing, under, and in accordance with the Credit Agreement;
- (d) the provision for taxes for such period;
- (e) unrealized foreign exchange gains or losses;
- (f) accrued and unpaid management fees and other operating costs as levied from time to time by Red Ash or any of its Affiliates to the extent deducted from Net Income;
- (g) exceptional restructuring charges up to a maximum amount of \$300,000; and
- (h) costs incurred in respect of this refinancing up to a maximum amount of \$200,000 paid on or before the date hereof or assumed in the calculation of Excess Availability on the date hereof; less

- (i) extraordinary, unusual and non-recurring gains unless pre-approved by Lender in writing, under, and in accordance with the Credit Agreement.

“**Eligible Accounts**” shall mean, with respect to an Operating Company, trade Accounts created by such Operating Company which are and continue to be acceptable to Lender in its reasonable credit discretion based on the criteria set forth below. In general, Accounts shall be Eligible Accounts if:

- (a) such Accounts arise from the actual and bona fide sale and delivery of goods by such Operating Company or rendition of services by such Operating Company in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;
- (b) such Accounts with 30 day terms are not unpaid more than 90 days after the date of the original invoice date for them;
- (c) such Accounts owing by the account debtors listed on **Schedule 1.1** hereto with 60 or 90 day terms are not paid more than 120 days after the date of the original invoice date for them up to the maximum aggregate amount of \$750,000;
- (d) such Accounts comply with the terms and conditions contained in Section 7.2 of this Agreement;
- (e) such Accounts do not arise from cash on delivery, pre-payments, website sales, credit card sales or are in respect of any royalties, services or licensing fees;
- (f) such Accounts do not arise from sales on consignment, guaranteed sales, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;
- (g) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, Australia or Canada, and, the Account is payable in Canadian Dollars or US Dollars, or AUD Dollars to the AUS Operating Company, or in a foreign currency and, at Lender’s option, if either: (i) the account debtor has delivered to such Operating Company an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable in such foreign currency an amount, sufficient to cover such Account, in form and substance satisfactory to Lender and if required by Lender, the original of such letter of credit has been delivered to Lender or Lender’s agent and the issuer thereof has been notified of Lender’s interest and such Operating Company has complied with the terms hereof with respect to the assignment of the proceeds of such letter of credit to Lender or naming Lender as transferee beneficiary thereunder, as Lender may specify, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

- (h) such Accounts do not consist of pre-billings, progress billings, bill and hold invoices or retainage invoices;
- (i) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and is not subject to any discount, right of setoff, chargeback, deduction, return, rebate, or recoupment or other dilutive factor against such Accounts (but the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by such Operating Company to such account debtor or claimed owed by such account debtor may be deemed Eligible Accounts);
- (j) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
- (k) such Accounts are subject to the first priority, valid and perfected Lien of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject only to Permitted Liens;
- (l) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an officer, employee or agent of or affiliated with Credit Parties directly or indirectly by virtue of family membership, ownership, control, management or otherwise;
- (m) the account debtors with respect to such Accounts are not any foreign government, the United States of America or any State, the Commonwealth of Australia or the federal government of Canada, or any Province, political subdivision, department, agency or instrumentality thereof, unless, if (i) the account debtor is the United States of America or any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request, the *Federal Assignment of Claims Act of 1940*, as amended or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Lender, or (ii) the account debtor is Her Majesty in Right of Canada or any provincial or local governmental entity, or any ministry, such Operating Company has assigned its right to payment of such Account to Lender pursuant to and in accordance with the *Financial Administration Act (Canada)*, as amended, or any similar applicable provincial or local law, regulation or requirement such assignment is enforceable against such governmental entity;
- (n) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition (including, without limitation, any bankruptcy, dissolution, liquidation, reorganization or similar proceeding);
- (o) such Accounts are not evidenced by or arising under any instrument or chattel paper unless a first (subject only to Permitted Liens) priority Lien in favour of

Lender is perfected on such chattel paper or instrument to the satisfaction of Lender in its sole discretion;

- (p) such Accounts of a single account debtor or its Affiliates, do not constitute more than 15% of all otherwise Eligible Accounts of such Operating Company (but in each case the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts);
- (q) such Accounts are not owed by an account debtor who has Accounts that are ineligible under clause (b) of this definition of Eligible Accounts which constitute more than 50% of the total Accounts of such account debtor;
- (r) the account debtor is not located in any State, Province or other political subdivision requiring the filing of a Notice of Business Activities Report or similar report in order to permit such Operating Company to seek judicial enforcement in such State, Province or other political subdivision of payment of such Account, unless such Operating Company has qualified to do business in such State, Province or other political subdivision or has filed a Notice of Business Activities Report or equivalent report for the then current year or such failure to file and inability to seek judicial enforcement is capable of being remedied without any material delay or material cost;
- (s) such Accounts are owed by any account debtor whose total indebtedness to such Operating Company does not exceed the credit limit with respect to such account debtor as determined by such Operating Company from time to time in the ordinary course of business consistent with its current practices as of the date hereof and as is reasonably acceptable to Lender (but in each case the portion of the Accounts not in excess of such credit limit may be deemed Eligible Accounts);
- (t) such Accounts are owed by account debtors deemed creditworthy at all times by Lender in its reasonable credit discretion; and
- (u) such Accounts are not otherwise deemed ineligible by Lender in accordance with the customary lending practices of Lender and the asset based funding industry in Lender's reasonable credit discretion.

The general criteria for Eligible Accounts set forth above may be changed and any new criteria for Eligible Accounts may be established by Lender in its reasonable credit discretion upon 5 Business Days' prior written notice to Borrower Agent (provided that such notice shall not be required during the existence of an Event of Default), based on either: (i) an event, condition or other circumstance arising after the date hereof, or (ii) an event, condition or other circumstance existing on the date hereof to the extent Lender has no written notice thereof from Borrower Agent prior to the date hereof, in either case under clause (i) or (ii) which adversely affects or could reasonably be expected to adversely affect the Accounts in the reasonable credit discretion of Lender. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

“Eligible Equipment” shall mean the machinery and equipment of the Canadian Borrowers located at the Waterloo Property which is not subject to any Liens other than Permitted Liens (other than purchase money security interests or in respect of borrowed money), which is in good working order (reasonable wear and tear excepted), is in their possession and not leased or rented to any other person and used for and in the active operations of their business, is insured to the satisfaction of Lender acting reasonably, is not and does not constitute a fixture to any real property and is otherwise acceptable to Lender in its reasonable credit discretion.

“Eligible Greige Goods” shall mean, with respect to an Operating Company, Inventory consisting of completed greige goods held in stock for the future manufacture of finished goods, which are acceptable to Lender in its reasonable credit discretion but in general, “Eligible Greige Goods” shall not include:

- (a) work-in-process; or
- (b) greige goods on the production floor.

“Eligible In-Transit Inventory” shall mean, as of any date of determination thereof, without duplication of other Eligible Inventory, in-transit Inventory:

- (a) which is in transit from a foreign location (other than from Australia) for receipt by a Canadian Operating Company or a US Operating Company in Canada or the US, but which has not yet been delivered and which in-transit Inventory has been in transit for 60 days or less from the date of shipment of such Inventory;
- (b) for which the purchase order is in the name of, and title and risk of loss has passed to, a Canadian Operating Company or a US Operating Company;
- (c) for which an acceptable document of title (including negotiable bills of lading) has been issued, and in each case as to which Lender has control over such documents of title which evidence ownership of the subject Inventory and is subject to a Bailee/Freight Agreement acceptable to Lender;
- (d) which is insured to the reasonable satisfaction of Lender (including, without limitation, marine cargo/freight insurance); and
- (e) which otherwise would constitute Eligible Inventory;

provided that Lender may, in its discretion, exclude any particular Inventory or value of such Inventory from the definition of “*Eligible In-Transit Inventory*” in the event Lender determines that such Inventory is subject to any Person’s right or claim which is (or is capable of being) senior to, or pari passu with, the Lien of Lender (such as, without limitation, a right of stoppage in transit, a right of revendication, or rights of unpaid sellers under the BIA) or may otherwise adversely impact the ability of Lender to realize upon such Inventory.

“**Eligible Inventory**” shall mean, with respect to an Operating Company, Inventory consisting of finished goods held for resale in the ordinary course of the business of such Operating Company, raw materials (including Eligible Greige Goods, and resin up to the maximum amount of the CAD Dollar Equivalent of \$2,000,000) for such finished goods, in each case which are acceptable to Lender and based on the criteria set forth below. In general, Eligible Inventory shall not include:

- (a) work-in-process (but shall include Kraus Carpet LP’s “yarn work-in-process” up to the maximum amount of the CAD Dollar Equivalent of \$500,000);
- (b) spare parts for Equipment;
- (c) packaging and shipping materials;
- (d) supplies used or consumed in such Operating Company’s business;
- (e) Inventory (other than Eligible In-Transit Inventory) at premises other than those owned and controlled by a Credit Party, except any Inventory which would otherwise be deemed Eligible Inventory that is not located at premises owned and operated by a Credit Party shall be considered Eligible Inventory under this clause (e): (i) as to locations which are leased by such Operating Company if Lender shall have received a Collateral Access Agreement from the owner and lessor of such location, duly authorized, executed and delivered by such owner and lessor or if Lender shall not have received such Collateral Access Agreement (or Lender shall determine to accept a Collateral Access Agreement which does not include all required provisions or provisions in the form otherwise required by Lender), Lender may, at its option, nevertheless consider Inventory at such location to be Eligible Inventory to the extent Lender shall have established such Reserves in respect of amounts at any time payable by such Operating Company to the owner and lessor thereof as Lender shall determine, and (ii) as to locations owned and operated by a third person, including a warehouseman or processor, if Lender shall have received a Collateral Access Agreement from such processor, owner or operator with respect to such location, duly authorized, executed and delivered by such processor, owner or operator or if Lender shall not have received such Collateral Access Agreement (or Lender shall determine to accept a Collateral Access Agreement which does not include all required provisions or provisions in the form otherwise required by Lender), Lender may, at its option, nevertheless consider Inventory at such location to be Eligible Inventory if it satisfies clause (i) above, to the extent Lender shall have established such Reserves in respect of amounts at any time payable by such Operating Company to the processor, owner and operator thereof as Lender shall determine;
- (f) Inventory subject to a Lien in favour of any person other than Lender except Permitted Liens (but not any purchase money security interests);
- (g) bill and hold goods;

- (h) unserviceable, worn, off quality, obsolete or unmerchantable Inventory, including masterbatch Inventory;
- (i) slow moving Inventory equal to Operating Companies' general ledger reserves for slow-moving Inventory calculated consistent with past practice;
- (j) Inventory which is not subject to the first (subject to Permitted Liens but not any purchase money security interests) priority, valid and perfected Lien of Lender;
- (k) returned, damaged, discontinued, contaminated, off-quality, rejected and/or defective Inventory;
- (l) Inventory held, purchased or sold on consignment;
- (m) Inventory of AUS Operating Company outside of Australia and Inventory of any other Operating Company located outside the United States of America or Canada;
- (n) Inventory covered by a document of title or other negotiable document unless issued or held by Lender;
- (o) Inventory not saleable in the ordinary course of business or at a price above cost;
- (p) Inventory subject to restrictions on the sale of such Inventory including pursuant to any licensing or distribution agreement or arrangement unless Lender has received a waiver and consent to its satisfaction;
- (q) Inventory that does not meet the specifications or standards of the intended customer or any applicable Governmental Authority; and
- (r) Inventory of any Operating Company which is located in a jurisdiction where Lender is not properly registered or perfected under the applicable personal property security statute or any Inventory stored at any location not owned by a Credit Party with a Value of less than \$100,000;
- (s) sku's of yarn or carpet Inventory, which when aggregated between all eligible locations, total less than 200 kilograms; and
- (t) such Inventory is otherwise deemed ineligible by Lender in accordance with the customary lending practices of Lender and the asset based lending industry in Lender's reasonable credit discretion.

The general criteria for Eligible Inventory set forth above may be changed and any new criteria for Eligible Inventory may be established by Lender in its reasonable credit discretion, upon 5 Business Days' prior written notice to Borrower Agent (provided that such notice shall not be required during the existence of an Event of Default), based on either: (i) an event, condition or other circumstance arising after the date hereof, or (ii) an event, condition or other circumstance existing on the date hereof to the extent Lender

has no written notice thereof from Borrower Agent prior to the date hereof, in either case under clause (i) or (ii) which adversely affects or could reasonably be expected to adversely affect the Inventory in the reasonable credit discretion of Lender. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

“Environmental Laws” shall mean with respect to any Person, all foreign, Federal, State, Provincial, local and municipal laws (including common law), legislation, rules, codes, licenses, permits (including any conditions imposed therein), authorizations, judicial or administrative decisions, injunctions or agreements between any Credit Party, any Subsidiary of any Credit Party and any Governmental Authority, (a) relating to pollution and the protection, preservation or restoration of the environment (including air, water vapour, surface water, ground water, drinking water, drinking water supply, surface land, subsurface land, plant and animal life or any other natural resource), or to human health or safety, (b) relating to the exposure to, or the use, storage, recycling, treatment, generation, manufacture, processing, distribution, transportation, handling, labelling, production, release or disposal, or threatened release, of Hazardous Materials, or (c) relating to all laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials. The term **“Environmental Laws”** includes (i) the *Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980*, the *Federal Superfund Amendments and Reauthorization Act*, the *Federal Water Pollution Control Act of 1972*, the *Federal Clean Water Act*, the *Federal Clean Air Act*, the *Federal Resource Conservation and Recovery Act of 1976* (including the Hazardous and Solid Waste Amendments thereto), the *Federal Solid Waste Disposal and the Federal Toxic Substances Control Act*, the *Federal Insecticide, Fungicide and Rodenticide Act*, and the *Federal Safe Drinking Water Act of 1974*, the *Canadian Environmental Assessment Act*, the *Canadian Environmental Protection Act and the Environmental Assessment Act (Ontario)*, (ii) applicable Australian Laws including the *Environmental Protection and Biodiversity Conservation Act 1999* (Commonwealth of Australia), the *Sustainable Planning Act 2004* (Queensland, Commonwealth of Australia) and the *Environmental Protection Act 1994* (Queensland, Commonwealth of Australia), and (iii) any common law or equitable doctrine that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Materials.

“Equipment” shall mean all of each Credit Party’s now owned and hereafter acquired equipment, wherever located, including machinery, and computer equipment and software, whether owned or licensed, and including embedded software, vehicles, trailers, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

“Equivalent Amount” in one currency on any day means the amount of that currency into which a specified amount of another currency can be converted at the Spot Rate (or if such rate is not available, such other rate as the Lender may determine).

“ERISA” shall mean the *United States Employee Retirement Income Security Act of 1974*, together with all rules, regulations and interpretations thereunder or related thereto.

“**ERISA Affiliate**” shall mean any person required to be aggregated with any Credit Party or any of its Subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code.

“**ERISA Event**” means (a) a “*reportable event*” (as defined in Section 4043 of ERISA or the regulations issued thereunder) (“**Reportable Event**”) (with respect to a Plan; (b) a withdrawal by a US Credit Party or any ERISA Affiliate from a Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by a US Credit Party or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the Pension Benefit Guaranty Corporation (“**PBGC**”) to terminate a Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon a US Credit Party or any ERISA Affiliate.

“**Event of Default**” shall mean the occurrence or existence of any event or condition described in Section 10.1 hereof.

“**Event of Loss**” shall mean any event or occurrence causing or constituting loss, damage or destruction to, or condemnation of, any Collateral.

“**Excess Availability**” shall mean the amount, as determined by Lender, calculated at any applicable time, equal to the CAD Dollar Equivalent of: (a) the lesser of: (i) the consolidated Borrowing Base of the Operating Companies, and (ii) the Maximum Revolving Credit, minus (b) the sum of: (i) the amount of all then outstanding and unpaid Obligations of Borrowers, and (ii) the aggregate amount of all due but unpaid tax obligations, trade payables and other obligations of the Operating Companies which are more than 60 days past due.

“**Exchange Act**” shall mean, as the context requires, the *Securities Act* (Ontario) or the *Securities Exchange Act of 1934*, together with all rules, regulations and interpretations thereunder or related thereto or any like or similar statute applicable to any of the Credit Parties or Red Ash including under Australian law.

“**Excluded Taxes**” shall mean, with respect to any Lender or any other recipient of any payment to be made by or on account of any obligation of any Borrower hereunder:

- (i) any income or franchise taxes imposed on or measured in whole or in part by such Person’s net income by the jurisdiction under the laws of which such recipient (a) is organized or incorporated, (b) maintains its principal lending office or, in the case of any Lender, its applicable lending office,

or (c) is doing business as a result of engaging in a trade or business in such jurisdiction (provided no Person shall be deemed to be located, doing business in or engaging in a trade or business in a jurisdiction solely as a result of the execution and delivery of the Financing Agreements and/or the exercise of its rights or the performance of its obligations thereunder);

- (ii) any branch profit taxes, taxes on capital, or any similar taxes imposed by any Governmental Authority on such Person;
- (iii) prior to any Default, any withholding taxes, including Canadian, Australian and U.S. federal withholding taxes, imposed on amounts payable to or for the account of such Person with respect to any applicable interest in a Loan pursuant to any Law in effect on the date on which (A) such Person acquires such interest in a Loan, or (B) such lender changes its lending office;
- (iv) taxes attributable to such lender's failure to comply with Section 3.6(d)(iii), and
- (v) any U.S. federal withholding taxes imposed under FATCA;

except that taxes shall include (A) any amount that a Foreign Lender (or its assignor, if any) was previously entitled to receive pursuant to the provisions hereof, if any, with respect to such withholding tax at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office), and (B) additional withholding taxes that may be imposed after the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office), as a result of a change in law, rule, regulation, order or other decision with respect to any of the foregoing by any Governmental Authority.

“**FATCA**” shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

“**Financing Agreements**” shall mean, collectively, this Agreement and all notes, guarantees, security agreements, pledges, collateral mortgages/charges of land/deeds, Lender Swap Agreements and other acknowledgements, waivers, certificates, consents, use, priority, subordination, intercreditor, or non-disturbance agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by any Credit Party or Red Ash in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

“**Fixed Charge Coverage Ratio**” shall mean, with respect to the Group Members and their Subsidiaries for any period, determined on a consolidated basis in accordance with Canadian GAAP, the ratio of (a) EBITDA, minus consolidated income and other taxes and tax dividends for such period that are required to be or are paid or payable in cash

during such period, minus unfinanced Capital Expenditures for such period, to (b) Fixed Charges for such period.

“**Fixed Charges**” shall mean, with respect to the Group Members and their Subsidiaries for any period, determined on a consolidated basis for any fiscal period, in accordance with Canadian GAAP and without duplication, the sum of:

- (a) all interest expense paid or payable in cash for such period during such period (which for greater certainty, all interest paid to Crystal Financial during the period between January to July 2013, shall be calculated based on the pro forma average interest to be paid to Lender during the months of August to December 2013); plus
- (b) all regularly scheduled principal payments of Indebtedness for borrowed money including all mortgage payments on the Australian Real Property and the Term Loan and Indebtedness with respect to Capital Leases paid or payable for such period (but excluding the amount of any payments on indebtedness made to Red Ash in respect of the Australian Sale Proceeds permitted hereunder); plus
- (c) management and service fees paid or payable in cash during such period (including any amounts paid or payable in cash to Red Ash); plus
- (d) dividends and other Distributions made during such period (but excluding the amount of any payments by way of dividends or other Distributions made to Red Ash in respect of the Australian Sale Proceeds permitted hereunder); plus
- (e) reductions in Availability relating to Waterloo Property; plus
- (f) reductions in Term Loan Availability in respect of Eligible Equipment pursuant to a reduction in NOLV in any applicable appraisal.

“**Fixed Rate Loans**” shall mean any Loans or portion thereof in multiples of not less than \$1,000,000 with an interest rate based on the BA Rate or Daily Three Month LIBOR with a fixed term of 1 to 3 months.

“**Foreign Lender**” shall mean a lender that is not a U.S. Person, a lender that is resident or organized under the laws of a jurisdiction other than that in which a Borrower is resident for tax purposes.

“**Foreign Subsidiary**” shall mean, as to any Person, any Subsidiary of such Person that is not a Domestic Subsidiary of such Person.

“**GAAP**” shall mean generally accepted accounting principles in Canada, the United States and Australia, as applicable to each Credit Party and Red Ash, as in effect from time to time as set forth in the opinions and pronouncements of the relevant Canadian, United States and Australia, public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied, except that, for the purposes of any financial covenant set out herein, GAAP shall be

determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

“Governmental Authority” shall mean any nation or government, any state, province, or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Group Members” shall mean Kraus Holdings Company ULC and its Subsidiaries, the US Operating Companies and the AUS Operating Company.

“Hazardous Materials” shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (including any that are or become classified as hazardous or toxic under any Environmental Law).

“Indebtedness” shall mean, with respect to any Person, any liability, whether or not contingent, (a) in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof) or evidenced by bonds, notes, debentures or similar instruments; (b) representing the deferred and unpaid balance of the purchase price of any property or services (except any such balance that constitutes an account payable to a trade creditor (whether or not an Affiliate) created, incurred, assumed or guaranteed by such Person in the ordinary course of business of such Person in connection with obtaining goods, materials or services that is not overdue by more than 60 days, unless the trade payable is being contested in good faith by appropriate proceedings); (c) all obligations as lessee under leases which have been, or should be, in accordance with GAAP recorded as Capital Leases; (d) in respect of Swap Agreements; (e) any contractual obligation, contingent or otherwise, of such Person to pay or be liable for the payment of any indebtedness described in this definition of another Person, including, without limitation, any such indebtedness, directly or indirectly guaranteed, or any agreement to purchase, repurchase, or otherwise acquire such indebtedness, obligation or liability or any security therefor, or to provide funds for the payment or discharge thereof, or to maintain solvency, assets, level of income, or other financial condition; (f) all obligations with respect to mandatorily redeemable stock and mandatory redemption or mandatory repurchase obligations under any Capital Stock or other equity securities issued by such Person; (g) all reimbursement obligations and other liabilities of such Person with respect to surety bonds (whether bid, performance or otherwise), letters of credit, banker’s acceptances or similar documents or instruments

issued for such Person's account; and (h) all indebtedness of such Person in respect of indebtedness of another Person for borrowed money or indebtedness of another Person otherwise described in this definition which is secured by any consensual Lien, conditional sale, or other encumbrance on any asset of such Person, whether or not such obligations, liabilities or indebtedness are assumed by or are a personal liability of such Person, all as of such time but if such Person is not liable on such indebtedness than only to the extent of the value of the property secured.

"Indemnified Taxes" shall mean (a) taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Credit Party under any Financing Agreement, and (b) to the extent not otherwise described in (a), Other Taxes.

"Information Certificate" shall mean the Information Certificates of the Credit Parties containing material information with respect to each Credit Party, its business and assets provided by or on behalf of each Credit Party to Lender prior to the date hereof in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

"Intellectual Property" shall mean each Credit Party's now owned and hereafter arising or acquired: patents, patent rights, patent applications, copyrights, works which are the subject matter of copyrights, copyright registrations, trademarks, trade names, trade styles, trademark and service mark applications, and licenses and rights to use any of the foregoing; all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing; all rights to sue for past, present and future infringement of any of the foregoing; inventions, trade secrets, formulae, processes, compounds, drawings, designs, blueprints, surveys, reports, manuals, and operating standards; goodwill (including any goodwill associated with any trademark or the license of any trademark); customer and other lists in whatever form maintained; and trade secret rights, copyright rights, rights in works of authorship, domain names and domain name registrations; software and contract rights relating to software, in whatever form created or maintained.

"Intercreditor Agreement" shall mean that intercreditor or subordination agreement dated with effect as of the date hereof among, *inter alios*, the Lender, the Credit Parties and Red Ash.

"Interest Rate" shall mean:

- (a) as to U.S. Prime Rate Loans, a per annum rate equal to the Applicable Margin for U.S. Prime Rate Loans plus the U.S. Prime Rate;
- (b) as to Canadian Prime Rate Loans, a per annum rate equal to the Applicable Margin for Canadian Prime Rate Loans plus the Canadian Prime Rate;
- (c) as to LIBOR Rate Loans, a per annum rate equal to the Applicable Margin for LIBOR Rate Loans plus the Daily Three Month LIBOR; and

- (d) as to BA Rate Loans, a per annum rate equal to the Applicable Margin for BA Rate Loans plus the BA Rate;

provided, that, notwithstanding anything to the contrary contained herein, the Interest Rate shall be increased by 3% per annum in excess of the then applicable Interest Rate, either:

- (i) for the period on and after the date of termination hereof until such time as all Obligations are paid and satisfied in full in immediately available funds; or
 - (ii) for the period from and after the date of the occurrence of any Event of Default, and for so long as such Event of Default is continuing as determined by Lender; and
- (e) on the applicable Loans, or the proceeds of which are advanced to any CAD Borrower or any US Borrower, at any time outstanding in excess of the amounts available to the applicable Borrower hereunder (whether or not such excess(es) arise or occurs as a result of any conversion of a currency or a net value hereunder or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default); and provided further that there is no Event of Default, the applicable Interest Rate shall be reduced by 25 basis points in the event that the average monthly Excess Availability for the applicable fiscal year of the Operating Companies is greater than \$17,500,000, and by 10 basis points in the event that the average monthly Excess Availability for the applicable fiscal year of the Operating Companies is greater than \$12,500,000 but less than or equal to \$17,500,000, which Interest Rate reduction shall only be effective 30 days after Lender's receipt of the Group Members' audited year-end financial statements.

"Inventory" shall mean all of Credit Parties' now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

"Investment Property Control Agreement" shall mean an agreement in writing, in form and substance satisfactory to Lender, by and among Lender, a Credit Party and any securities intermediary, commodity intermediary or other person who has custody, control or possession of any investment property of such Credit Party acknowledging that such securities intermediary, commodity intermediary or other person has custody, control or possession of such investment property on behalf of Lender, that it will comply with entitlement orders originated by Lender with respect to such investment property, or other instructions of Lender, or (as the case may be) apply any value distributed on account of any commodity contract as directed by Lender, in each case, without the further consent of such Credit Party and including such other terms and conditions as Lender may require.

“**Law**” means all laws, (including the common law), by-laws, ordinances, rules, statutes, regulations, treaties, orders, rules, judgments and decrees, and all official directives, rules, guidelines, notices, approvals, orders, policies and other requirements of any Governmental Authority whether or not they have force of law.

“**Lender Swap Agreement**” shall mean any Swap Agreement between a Borrower and Lender or any Affiliate of Lender whether or not such Person has ceased to be Lender under this Agreement pursuant to an ISDA Master Agreement satisfactory to Lender in its reasonable credit discretion.

“**Letter of Credit Accommodations**” shall mean, collectively, the letters of credit, merchandise purchase or other guaranties denominated in either CAD Dollars or US Dollars which are from time to time either (a) issued or opened by Lender on the application of a Borrower for the account of a Borrower, or (b) with respect to which Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by a Borrower of its obligations to such issuer; sometimes being referred to herein individually as a “**Letter of Credit Accommodation**”. With respect to clause (a) of the preceding sentence, in the case of letters of credit issued or opened for the account of a Borrower, for purposes of determining any of the loan limits set forth in Section 2.1 hereof, such letter of credit shall be allocated to such Borrower.

“**LIBOR**” means the rate chosen by Lender that tracks, but does not mirror, the rate set forth in The Wall Street Journal under the heading “*Money Rates*” and described as the “*London Interbank Offered Rates*” for the applicable interest period (rounded up to the nearest $\frac{1}{8}\%$) as adjusted to satisfy Federal Reserve System requirements. “**LIBOR Rate Loans**” shall mean any Loans, including Fixed Rate Loans or portion thereof denominated in US Dollars and on which interest is payable based on Daily Three Month LIBOR in accordance with the terms hereof.

“**License Agreements**” shall have the meaning set forth in Section 8.10 hereof.

“**Lien**” shall mean, whether based on common law, statute or contract, whether choate or inchoate, whether or not crystallized or fixed, circulating or non-circulating, whether or not for amounts due or accruing due, any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, rights, interest, security interest (including a security interest as defined in sections 12(1) and 12(2) of the Australian PPSA), security title, deemed trust, requirement to pay, easement, reservation, exception, encroachment, privilege, title exception, garnishment right, prior claim or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement or purchase money security interest, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the UCC, the Australian PPSA or PPSA or comparable law of any jurisdiction, including Australian Laws) including any rights of repossession, revendication or similar rights of unpaid supplier.

“**Loan Parties**” shall mean the Persons now or hereafter executing this Agreement in addition to the Operating Companies, as Loan Parties;

“**Loans**” shall mean the Revolving Loans and the Term Loan.

“**Mark-to-Market Exposure**” in connection with any Credit Parties’ liability under any Swap Agreement means, as at the measurement date, the “*Early Termination Amount*” that would be payable under such agreement as though such day was an “*Early Termination Date*” and the “*Transaction*” was a “*Terminated Transaction*” in accordance with the payment measures provided for in Section 6(e)(i) of the 2002 ISDA Master Agreement as published by International Swap Dealers Association, Inc. as amended or replaced from time to time. For the purposes of this Agreement, such liability shall be expressed in the CAD Dollar Equivalent as at the end of any such month. Furthermore, the amount of such liability shall be established by the Lender after consultation with the relevant counterparties who themselves shall determine same in accordance with the aforementioned payment measures.

“**Material Adverse Effect**” means any of the following events which could or would have:

- (a) a material adverse effect on the business, operations, results of operations, prospects, assets, liabilities or financial condition of any Credit Party;
- (b) a material adverse effect on the ability of any Credit Party or Red Ash to perform its obligations under the Financing Agreements;
- (c) a material adverse effect on the ability of Lender to enforce the Obligations or to realize the intended benefits of the Financing Agreements, including a material adverse effect on the validity or enforceability of any Financing Agreements or of any rights against any Credit Party or Red Ash, or on the status, existence, attachment, perfection, priority (subject to Permitted Liens) or enforceability of any Lien securing payment or performance of the Obligations or material adverse effect on any credit rating of any Credit Party; or
- (d) the effect, as a result of any claim against any Credit Party or threat of litigation which if determined adversely to any Credit Party, would cause any Credit Party to be liable to pay an amount exceeding the available insurance coverage or if not covered, \$250,000, or would result in the occurrence of an event described in any of the clauses above.

“**Maturity Date**” has the meaning set forth in Section 12.1 hereof.

“**Material Contract**” shall mean other than the employment agreements with existing senior management of the Credit Parties, (a) any written contract or other written agreement (other than the Financing Agreements) of any Credit Party involving monetary liability of or to any Person in an amount in excess of \$500,000 in any fiscal year, including, without limitation, the contracts set out on Schedule 1.2 hereof, and (b) any other contract or other agreement (other than the Financing Agreements), whether written

or oral, to which any Credit Party is a party as to which the breach, non-performance, cancellation or failure to renew by any party thereto would be reasonably likely to have a Material Adverse Effect.

“Maximum Credit” shall mean the amount of \$50,000,000 CAD Dollars or the Equivalent Amount in US Dollars.

“Maximum Revolving Credit” shall mean the amount of \$45,350,000 CAD Dollars or the Equivalent Amount in US Dollars.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which a Credit Party or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Net Amount of Eligible Accounts” shall mean the gross amount of Eligible Accounts less (a) sales, excise, harmonized or similar taxes included in the amount thereof, (b) late, finance or service charges included in the amount thereof, and (c) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto, provided that the amounts deducted above shall not duplicate items for which Reserves have been established by Lender.

“Net Cash Proceeds” shall mean (i) with respect to any Disposition by any Credit Party or Red Ash or any of its Subsidiaries, the amount of cash received (directly or indirectly) from time to time (whether as initial consideration or through the payment or disposition of deferred consideration) by or on behalf of such Credit Party or Red Ash or such Subsidiary, in connection therewith after deducting therefrom only (A) the amount of any Indebtedness secured by any Permitted Lien on any asset (other than Indebtedness assumed by the purchaser of such asset) which is required to be, and is, repaid in connection with such Disposition (other than Indebtedness under this Agreement), (B) reasonable expenses related thereto incurred by such Credit Party or Red Ash or such Subsidiary in connection therewith (including sales and brokers’ commissions and legal, accounting and investment banking fees as deemed reasonable by Lender), (C) transfer, sales and/or other taxes paid to any taxing authorities by such Credit Party or Red Ash or such Subsidiary in connection therewith, and (D) net income taxes to be paid in connection with such Disposition (after taking into account any tax credits or deductions and any tax sharing arrangements), (ii) with respect to any proceeds of insurance or condemnation awards (or payments in lieu thereof) with respect to Events of Loss involving property of any Credit Party or Red Ash or any of its Subsidiaries, the amount of cash received (directly or indirectly) from time to time by or on behalf of such Credit Party or Red Ash or such Subsidiary, in connection therewith after deducting therefrom only (A) the amount of any Indebtedness secured by any Permitted Lien on any asset which is required to be, and is, repaid in connection with such property (other than Indebtedness under this Agreement), (B) reasonable expenses related thereto incurred by such Credit Party or Red Ash or such Subsidiary in connection therewith, and (C) net income taxes to be paid in connection with such property (after taking into account any

tax credits or deductions and any tax sharing arrangements), and (iii) with respect to the issuance or incurrence of any Indebtedness (other than Indebtedness permitted hereunder) by any Credit Party or Red Ash or any of its Subsidiaries, or the sale or issuance by any Credit Party or Red Ash or any of its Subsidiaries of any shares of its Capital Stock (other than as permitted hereunder), the aggregate amount of cash received (directly or indirectly) from time to time (whether as initial consideration or through the payment or disposition of deferred consideration) by or on behalf of such Credit Party or Red Ash or such Subsidiary in connection therewith, after deducting therefrom only (A) reasonable expenses related thereto incurred by such Credit Party or Red Ash or such Subsidiary in connection therewith, including broker, investment banker and other similar fees or commissions, (B) transfer, sales and/or other taxes paid by such Credit Party or Red Ash or such Subsidiary in connection therewith, and (C) net income taxes to be paid in connection therewith (after taking into account any tax credits or deductions and any tax sharing arrangements); in each case of clause (i) and (ii) to the extent, but only to the extent, that the amounts so deducted are (x) actually paid to a Person that, except in the case of reasonable out-of-pocket expenses, is not an Affiliate of such Credit Party or Red Ash or any of its Subsidiaries, and (y) properly attributable to such transaction or to the asset that is the subject thereof.

“Net Income” shall mean, for a given period, the after-tax net income from continuing operations, as determined in accordance with GAAP.

“Net Orderly Liquidation Value” or **“NOLV”** shall mean, with respect to Eligible Inventory or Eligible Equipment, the projected recovery in respect of such asset on a net orderly liquidation value basis, as set forth in the most recent reasonably acceptable appraisal received by Lender that has been conducted by an appraiser reasonable acceptable to Lender pursuant to a methodology reasonable acceptable to Lender in accordance with this Agreement, net of operating expenses, labour costs, royalties, license fees, rent and other occupation or access costs, liquidation expenses, commissions and other applicable amounts.

“Obligations” shall mean any and all Loans, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by each Credit Party to Lender and/or its Affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, arising under, from or in connection with, this Agreement and any other Financing Agreements and any Lender Swap Agreement, any Cash Management Products, whether now existing or hereafter arising, arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any proceeding with respect to any Credit Party under the *United States Bankruptcy Code*, the BIA, the CCAA, the *Winding-Up and Restructuring Act* (Canada), the *Business Corporations Act* (Ontario), the Corporations Act, or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender. Without limiting

the foregoing, the Obligations of the Credit Parties shall include any guaranty by any Credit Party of the Obligations of a Borrower.

“**OFAC**” shall mean the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“**Operating Companies**” shall mean, collectively, the US Operating Companies, the Canadian Operating Companies and the AUS Operating Company; and each individually, an “**Operating Company**”.

“**Operating Company Advance Limit**” shall mean, (a) with respect to the US Operating Companies, an amount equal to the CAD Dollar Equivalent of (i) the Availability of the US Operating Companies, and (b) with respect to the CAD Borrowers, an amount equal to the CAD Dollar Equivalent of (i) the Availability of Canadian Operating Companies, plus (ii) Availability for the AUS Operating Company; provided that at all times the amount of Availability relating to the AUS Operating Company shall be limited to the amount of intercorporate advances it has received from the CAD Borrowers.

“**Other Taxes**” shall mean all present or future stamp, court or documentary, intangible, recording, filing, excise and property taxes, charges, duties, debits or similar taxes and/or levies that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Financing Agreement.

“**Participant**” shall mean any financial institution that acquires and holds a participation in the interest of Lender in any of the Revolving Loans and Letter of Credit Accommodations in conformity with the provisions of this Agreement governing participations.

“**Pension Plan**” shall mean a “*pension plan*” (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which a US Credit Party sponsors, maintains, or to which a Credit Party or any ERISA Affiliate makes, is making, or is obligated to make contributions, other than a Multiemployer Plan.

“**Permitted Liens**” means:

- (a) Liens in favour of Lender for the Obligations under or pursuant to the Financing Agreements;
- (b) Liens imposed by any Governmental Authority for taxes not yet due and delinquent or which are being contested in good faith and reserves satisfactory to Lender have been taken, and, during such period during which such Liens are being so contested, such Liens shall not be registered, executed on or enforced against any of the Collateral;
- (c) carrier’s, warehousemen’s, mechanics’, materialmen’s, repairmen’s, construction and other like Liens arising by operation of Applicable Law, arising in the ordinary course of business, in respect of amounts which are not overdue or which

are being contested in good faith and by appropriate proceedings, and, during such period during which such Liens are being so contested, such Liens shall not be registered, executed on or enforced against any of the Collateral, provided in each case that the applicable Credit Party shall have established reserves satisfactory to Lender;

- (d) statutory Liens incurred or pledges or deposits made under worker's compensation, unemployment insurance and other social security legislation in the ordinary course of business for obligations not due or delinquent (except Liens arising under the ERISA);
- (e) Liens or deposits to secure the performance of bids, tenders, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature (other than for borrowed money) incurred in the ordinary course of business for obligations not due or delinquent;
- (f) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which the applicable Credit Party or Red Ash shall at any time in good faith by appropriate proceedings be prosecuting an appeal or proceeding for review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured and reserves satisfactory to Lender have been taken;
- (g) the rights reserved to or vested in any governmental authority by statutory provisions or by the terms of leases, licenses, franchises, grants or permits, which affect any land, to terminate the leases, licenses, franchises, grants or permits or to require annual or other periodic payments as a condition of the continuance thereof;
- (h) Liens on specific consumer goods, equipment and/or motor vehicles of the Credit Parties or Red Ash existing on the date hereof or liens on specific consumer goods, equipment and/or motor vehicles of the Credit Parties or Red Ash acquired to replace such consumer goods, equipment and/or motor vehicles of the Credit Parties; provided that respecting the Credit Parties (i) such Lien shall not apply to any other property or asset of such Person; and (ii) such Lien shall secure only those obligations which it secures on the date hereof or the date of replacement; or that the lienholder or secured party has provided an acknowledgement or "*estoppel letter*" or non-disturbance agreement as may be required by Lender in a form that is acceptable to Lender in its credit discretion;
- (i) purchase money security interests consisting of Liens to provide or secure the whole or any part of the consideration for the acquisition of Equipment but not any Inventory where (i) the principal amount secured does not exceed the cost of such property and the obligation to repay is secured only by the property so acquired; or (ii) such security results from the renewal or refinancing of any such purchase money security interest on the same property provided that the indebtedness secured and the security therefore is not increased;

- (j) undetermined or inchoate Liens, arising or potentially arising under statutory provisions which do not materially interfere with the Credit Parties' or Red Ash business or operations as presently conducted and which relate to obligations not due and payable and which have not at the time been filed, registered or become enforceable in accordance with Applicable Laws or of which written notice has not been duly given in accordance with Applicable Laws;
- (k) Liens given in the ordinary course of business to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or governmental or authority in connection with the operations of the Credit Parties;
- (l) Liens in favour of Red Ash against the Credit Parties pursuant to a subordination or intercreditor agreement in form and substance satisfactory to Lender;
- (m) an interest that is a Lien by reason only of the operation of section 12(3) of the Australian PPSA;
- (n) a limited Lien over a specific deposit account with ANZ Bank as set out in a PPSA Acknowledgment delivered to and in favour of Lender in connection herewith;
- (o) without duplication, the Liens referred to in Section 9.8; and
- (p) Liens arising from the purchase of any Collateral (including any proceeds of that Collateral) on retention of title terms entered into by the AUS Operating Company in the ordinary course of the AUS Operating Company's business on the supplier's usual terms of trading as long as the purchase price is paid and all obligations relating to the purchase are performed when due.

“**Person**” or “**person**” shall mean any individual, sole proprietorship, partnership, limited partnership, corporation (including any corporation which elects subchapter S status under the Code), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

“**Plan**” means any “*employee benefit plan*” or any “*plan*” (as each such term is defined in Section 3(3) of ERISA), which a Credit Party sponsors, maintains, or to which it makes, is making, or is obligated to make contributions, or in the case of a Multiemployer Plan has made contributions at any time during the immediately preceding six (6) plan years or with respect to which any Credit Party may incur liability.

“**PPSA**” shall mean the *Personal Property Security Act* as in effect in the Province of Ontario and any other applicable Canadian Federal or Provincial statute (including without limitation, the Civil Code of Quebec) pertaining to the granting, perfecting, priority or ranking of Liens on personal property, and any successor statutes, together with any regulations thereunder, in each case as in effect from time to time. References to sections of the PPSA shall be construed to also refer to any successor sections.

“Prime Rate” shall mean, as the context requires, either Canadian Prime Rate or U.S. Prime Rate.

“Prime Rate Loans” shall mean, as the context requires, either Canadian Prime Rate Loans or U.S. Prime Rate Loans.

“Priority Payables” shall mean, at any time, the full amount of the liabilities of the Credit Parties at such time which (i) have a trust imposed to provide for payment or a Lien ranking or capable of ranking senior to or pari passu with Liens securing the Obligations on any of the Collateral of any Credit Party under Federal, State, Provincial, county, district, municipal, or local law, regulation or direction, including any Australian Law, or (ii) have a right or claim imposed to provide for payment ranking or capable of ranking senior to or pari passu with the Obligations under any such law, regulation or directive, including, but not limited to, claims for unremitted and/or accelerated rents, amounts owing to freight forwarders, taxes, wages, sales taxes, import taxes or duties, statutory rates and other amounts including payable to an insolvency administrator, employee withholdings or deductions and vacation pay, workers’ compensation obligations, government royalties or pension fund obligations, including under the *Wage Earner Protection Plan Act*, the Corporations Act or any other Australian Law or in respect of rights of unpaid suppliers, in each case to the extent such Lien has been or may be imposed.

“Real Property” shall mean all now owned and hereafter acquired real property of each Credit Party, including leasehold interests, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located, including, as applicable, the Australian Real Property, the Waterloo Property and the real property of Kraus Brands LP and Barrett.

“Real Property Release Conditions” shall have the meaning ascribed thereto in Subsection 9.8(a).

“Records” shall mean all of each Credit Party’s and Red Ash’s present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, purchase orders, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of such Credit Party and Red Ash with respect to the foregoing maintained with or by any other Person).

“Red Ash” shall mean Red Ash Capital Partners II LP and its applicable Affiliates including Pinnacle Capital Resources ULC in its capacity as general partner thereof and their respective successors and assigns.

“Reference Bank” shall mean Wells Fargo Bank, National Association, or such other bank as Lender may from time to time designate.

“Reserves” shall mean, without duplication, as of any date of determination, such amounts as Lender may from time to time establish and revise in its reasonable credit discretion in accordance with Lender’s customary practices, as may be applicable under the circumstances, reducing the amount of Loans and Letter of Credit Accommodations which would otherwise be available to a Borrower under the lending formula(s) provided for herein:

- (a) to reflect events, conditions, contingencies or risks which, as determined by Lender in its reasonable credit discretion, adversely affect, or would have a reasonable likelihood of adversely affecting, either:
 - (i) the Collateral or any other property which is security for the Obligations or its value or the amount that Lender might receive from the sale or other disposition thereof or the ability of Lender to realize thereon;
 - (ii) the assets, business or prospects of any Credit Party; or
 - (iii) the Liens and other rights of Lender in the Collateral (including the enforceability, perfection and priority thereof); or
- (b) to reflect Lender’s belief, in its reasonable credit discretion, that any collateral report or financial information furnished by or on behalf of any Credit Party to Lender is or may have been incomplete, inaccurate or misleading in any material respect;
- (c) to reflect outstanding Letter of Credit Accommodations as provided in Section 2.2 hereof;
- (d) to reflect a reduction in the forced liquidation value of the Waterloo Property or the value of the Equipment of the Operating Companies to the extent that an appraisal of such Equipment obtained after the date hereof reflects that the value of such Equipment is less than 85% of the aggregate Net Orderly Liquidation Value of such Equipment considered eligible by Lender as of the date of such appraisal, with such reserve to be applied against the Term Loan Availability of the Operating Company that owns such Equipment;
- (e) to reflect the amounts of any Priority Payables and without duplication to the calculation of Availability;
- (f) a permanent availability block of CAD\$250,000 in respect of the AUS Operating Company;
- (g) in respect of any state of facts which Lender determines in its reasonable credit judgment constitutes a Default or an Event of Default (while such Default or Event of Default is continuing); or
- (h) to reflect any Mark-to-Market Exposure under any Lender Swap Agreements; or

Without limiting the generality of the foregoing, Reserves may, at Lender's option, be established to reflect:

- (a) returns, discounts, claims, credits, allowances and other dilutive factors that are not paid and may result in a reduction of Accounts;
- (b) sales, excise or similar taxes included in the amount of any Accounts reported to Lender;
- (c) amounts due or to become due to processors, owners, mortgagees and lessors of premises where any Collateral is located, other than for those locations where Lender has received a Collateral Access Agreement or non-disturbance/use agreement that Lender has accepted in writing; and
- (d) amounts due or to become due to owners and licensors of trademarks and other Intellectual Property used by any Credit Party, but, in each case, without duplication of any other reserves or deductions from Eligible Accounts, Eligible Inventory or Eligible Equipment. To the extent Lender may revise the lending formulas used to determine the Borrowing Base, Term Loan Availability or an Operating Account Advance Limit or establish new criteria or revise existing criteria for Eligible Accounts, Eligible Inventory or Eligible Equipment so as to address any circumstances, condition, event or contingency in a manner satisfactory to Lender, Lender shall not also establish a Reserve for the same purpose. The amount of any Reserve established by Lender shall have a reasonable relationship to the event, condition or other matter which is the basis for such reserve as determined by Lender in its reasonable credit discretion.

“Revolving Loans” shall mean Canadian Prime Rate Loans, U.S. Prime Rate Loans, BA Rate Loans and/or LIBOR Rate Loans, as the case may be, now or hereafter made by Lender to or for the benefit of a Borrower on a revolving basis (involving advances, repayments and re-advances) as set forth in Section 2 hereof.

“Sanctioned Entity” shall mean (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

“Sanctioned Person” shall mean a person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“Solvent” shall mean, at any time with respect to any Person and its subsidiaries, taken as a whole, that at such time such Persons (a) are able to pay its debts as they mature and have (and have a reasonable basis to believe they will continue to have) sufficient capital (and not unreasonably small capital) to carry on its business consistent with its practices as of the date hereof, (b) the assets and properties of such Persons at a fair valuation (and

including as assets for this purpose at a fair valuation all rights of subrogation, contribution or indemnification arising pursuant to any guarantees given by such Persons) are greater than the Indebtedness of such Persons, and including subordinated and contingent liabilities computed at the amount which, such person has a reasonable basis to believe, represents an amount which can reasonably be expected to become an actual or matured liability (and including as to contingent liabilities arising pursuant to any guarantee the face amount of such liability as reduced to reflect the probability of it becoming a matured liability), and (c) in respect of the AUS Operating Company, is not “*insolvent*” within the meaning of section 95A(2) of the Corporations Act.

“**Spot Rate**” shall mean, with respect to a currency, the rate quoted by the Canadian Reference Bank as the spot rate for the purchase by the Canadian Reference Bank of such currency with another currency at approximately 10:00 a.m. (Toronto, Ontario time) on the date which is 2 Business Days prior to the date as of which the foreign exchange computation is made.

“**Subordinated Secured Creditor**” shall mean Red Ash.

“**Subordinated Secured Debt**” shall mean, any and all Indebtedness owing to Red Ash by any Credit Party.

“**Subsidiary**” or “**subsidiary**” shall mean, (a) with respect to any Person (other than the AUS Operating Company), any corporation, limited liability company, limited liability partnership or other limited or general partnership, trust, association or other business entity of which an aggregate of at least a majority of the outstanding Capital Stock or other interests generally entitled to vote in the election of the board of directors of such corporation (irrespective of whether, at the time, Capital Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency), managers, trustees or other controlling persons, or an equivalent controlling interest therein, of such Person is, at the time, directly or indirectly, owned by such Person and/or one or more subsidiaries of such Person, and (b) with respect to the AUS Operating Company, has the meaning given to that term in the Corporations Act.

“**Swap Agreement**” shall mean any swap agreement (as defined in 11 USC. §101), foreign exchange agreement, interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract and other similar hedge or swap agreement.

“**Term Loan**” has the meaning specified in Section 2.4.

“**Term Loan Availability**” shall mean, as to each of the Canadian Operating Companies (collectively), and each of the US Operating Companies (collectively), at any time, the amount equal to the lesser of:

- (a) the amount of \$4,650,000 less any principal payments made in respect of the Term Loan; or

- (b) up to 85% of the CAD Dollar Equivalent of the NOLV of Eligible Equipment of such Operating Companies; less
- (c) any Reserves applicable to such Operating Companies.

“Term Loan Amount” means the Term Loan Availability or the Equivalent Amount in US Dollars.

“Termination Date” has the meaning ascribed thereto in Section 12.1.

“UCC” shall mean the Uniform Commercial Code as in effect in the State of New York, and any successor statute, as in effect from time to time (except that terms used herein which are defined in the Uniform Commercial Code as in effect in the State of New York on the date hereof shall continue to have the same meaning notwithstanding any replacement or amendment of such statute except as Lender may otherwise determine).

“U.S. Person” means any Person that is a *“United States Person”* as defined in Section 7701(a)(30) of the Code.

“U.S. Prime Rate” shall mean the rate announced by Reference Bank, or its successors, from time to time, as its prime rate in effect for US Dollar denominated loans, whether or not such announced rate is the best rate available, effective as of the day any such change occurs.

“U.S. Prime Rate Loans” shall mean any Loans or portions thereof denominated in US Dollars on which interest is payable based on the U.S. Prime Rate in accordance with the terms hereof.

“U.S. Tax Compliance Certificate” has the meaning assigned to such term in Section 3.3(e)(iv)(B)(2)(c).

“Value” shall mean, as determined by Lender in its reasonable credit discretion, with respect to Inventory or Equipment cost computed on a first-in first-out basis, in accordance with GAAP provided, that, for purposes of the calculation of the Borrowing Base, Term Loan Availability and each Operating Account Limit, (i) the Value of the Inventory shall not include: (A) the portion of the value of Inventory equal to the profit earned or any management or service fee charged by any Affiliate on the sale thereof to any Operating Company, or (B) write-ups or write-downs in value with respect to currency exchange rates.

“Voting Stock” shall mean with respect to any Person, (a) one (1) or more classes of Capital Stock of such Person having general voting powers to elect at least a majority of the board of directors, managers or trustees of such Person, irrespective of whether at the time Capital Stock of any other class or classes have or might have voting power by reason of the happening of any contingency, and (b) any Capital Stock of such Person convertible or exchangeable without restriction at the option of the holder thereof into Capital Stock of such Person described in clause (a) of this definition.

“**Waterloo Property**” means the real property owned by the CAD Borrowers as of the date hereof located in Waterloo, Ontario.

SECTION 2 - CREDIT FACILITIES

2.1 Loans

- (a) Subject to and upon the terms and conditions contained herein, Lender agrees to make Canadian Dollar Loans by way of Canadian Prime Rate Loans and, upon a written request therefor, BA Rate Loans, and US Dollar Loans by way of U.S. Prime Rate Loans and, upon a written request therefor, LIBOR Rate Loans, to Borrowers as requested by Borrower Agent from time to time in accordance with the provisions hereof; provide that:
- (i) the aggregate CAD Dollar Equivalent amount of outstanding Revolving Loans does not at any time exceed the lesser of: (x) the Borrowing Base, (y) the Maximum Revolving Credit, and (z) each applicable Operating Company Advance Limit for each Borrower; and that
 - (ii) the aggregate CAD Dollar Equivalent amount of the outstanding amount of the Term Loan does not at any time exceed the Term Loan Availability.
- (b) Lender may, in its discretion, from time to time, (i) reduce the lending formula with respect to Eligible Accounts to the extent that Lender determines in its reasonable credit judgment that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may be reasonably anticipated to increase in any material respect above historical levels, or exceeds 2.5% for Accounts insured to the satisfaction of Lender and 5% for uninsured Accounts, or (B) the general creditworthiness of account debtors that are neither insured nor covered by an irrevocable letter of credit acceptable to Lender has declined, or (ii) reduce the lending formula(s) with respect to Eligible Inventory, Eligible Equipment or the Waterloo Property to the extent that Lender determines that: (1) the number of days of the turnover of the Inventory for any period or the product mix has changed in any material respect, or (2) the Net Orderly Liquidation Value of the Eligible Inventory or Eligible Equipment or any category thereof or the forced liquidation value of the Waterloo Property, has decreased, or (3) the nature and quality of the Inventory or Equipment or the Waterloo Property has deteriorated. The amount of any decrease in the lending formulas shall have a reasonable relationship to the event, condition or circumstance which is the basis for such decrease as determined by Lender in its reasonable credit discretion. In determining whether to reduce the lending formula(s), Lender may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory, Eligible Equipment or the Waterloo Property or in establishing Reserves, but shall not

reduce the lending formula(s) to specifically address matters to the extent that such matters are already the subject of a Reserve or ineligible category.

- (c) Except in Lender's discretion, (i) the aggregate CAD Dollar Equivalent amount of the Revolving Loans and Letter of Credit Accommodations outstanding at any time shall not exceed the lesser of (a) the Borrowing Base, (b) the applicable Operating Company Advance Limit, and (c) the Maximum Revolving Credit. In the event that the outstanding Canadian Dollar Amount of any component of the Revolving Loans, or the aggregate Canadian Dollar Amount of the outstanding Revolving Loans and Letter of Credit Accommodations, exceed the amounts available pursuant to the Borrowing Base, the applicable Operating Company Advance Limit, the sublimits for Letter of Credit Accommodations set forth in Section 2.2 or the Maximum Revolving Credit, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and the applicable Borrower shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of any such excess(es) for which payment is demanded.
- (d) Interest accruing on any Fixed Rate Loan shall be due and payable on the last day of the applicable term of such Fixed Rate Loan and on the Termination Date; provided, however, for Fixed Rate Loan terms in excess of one month, interest shall nevertheless be due and payable monthly on the last day of each month, and on the last day of the terms of such Fixed Rate Loan.
- (e) Borrower Agent may request, in writing, that all or any part of an outstanding floating rate Loan be converted to a Fixed Rate Loan, provided that no Event of Default exists, and that Lender receives the request no later than 11:00 a.m. Eastern Time 2 Business Days prior to the day on which Borrower Agent wishes the conversion to become effective. Each request shall specify the principal amount to be converted and the Business Day of conversion. The request shall be confirmed in writing to Lender. Each conversion shall be in multiples of \$1,000,000, and shall not at any time exceed 75% of the floating rate Loans in the respective currency.
- (f) Unless Borrower Agent requests a new Fixed Rate Loan, or prepays an outstanding Fixed Rate Loan at the expiration of the applicable term of such Fixed Rate Loan, Lender shall convert each Fixed Rate Loan to the applicable floating rate Loan on the last day of the expiring term. If no Event of Default exists, Borrower Agent may request that all or part of any expiring Fixed Rate Loan be renewed as another Fixed Rate Loan, provided that Lender receives the request no later than 11:00 a.m. Eastern Time 2 Business Days prior to the day that constitutes the first day of the new term. Each request shall specify the principal amount of the expiring Fixed Rate Loan to be renewed, and shall be confirmed in writing to Lender. Each renewal of a Fixed Rate Loan shall be in multiples of \$1,000,000, and shall not at any time exceed 75% of the floating rate Loans in the respective currency.

- (g) Lender shall, with respect to any request for a Fixed Rate Loan or the renewal of an existing Fixed Rate Loan, or for the conversion of a floating rate Loan to a Fixed Rate Loan, provide Borrower Agent with a Fixed Rate Loan quote based on the BA Rate or Daily Three Month LIBOR, as applicable, for each Fixed Rate Loan term identified by Borrower Agent on the Business Day on which the request was made, if the request is received by Lender no later than 11:00 a.m. Eastern Time 2 Business Days prior to the day on which Borrower Agent has requested that the Fixed Rate Loan be funded. If Borrower Agent does not immediately accept the fixed rate quote, then the quoted rate shall expire and any subsequent request for a fixed rate quote for a Fixed Rate Loan shall be subject to redetermination by Lender.
- (h) The Borrowers shall also pay Lender with respect to any Loan based on LIBOR, all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority that are related to LIBOR, and (ii) future, supplemental, emergency or other changes in any LIBOR reserve percentage, the assessment rates imposed by the Federal Deposit Insurance Corporation, or similar costs imposed by any domestic or foreign governmental authority or resulting from compliance by Lender with any request or directive (whether or not having the force of law) from any central bank or other governmental authority that are related to LIBOR but not otherwise included in the calculation of LIBOR. In determining which of these amounts are attributable to an existing Loan that is based on LIBOR, any reasonable allocation made by Lender shall be deemed conclusive and binding.
- (i) A Borrower may prepay any Fixed Rate Loan at any time in multiples of \$1,000,000, whether voluntarily or by acceleration, provided, however, that if the Fixed Rate Loan is prepaid, such Borrower shall pay Lender upon demand a Fixed Rate Loan breakage fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the Fixed Rate Loan term matures, calculated as follows for each such month:
 - (i) Determine the amount of interest that would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the applicable Fixed Rate Loan term.
 - (ii) Subtract from the amount determined in (i) above the amount of interest that would have accrued for the same month on the amount of principal prepaid for the remaining term of the Fixed Rate Loan term at a rate equal to LIBOR or the BA Rate, as applicable, in effect on the date of prepayment for new Loans extended at such fixed rate for the remainder of the Fixed Rate Loan term in a principal amount equal to the amount prepaid.

- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR, or the BA Rate, as applicable, used in (ii) above.

Credit Parties and Red Ash acknowledge that prepayment of a Fixed Rate Loan may result in Lender incurring additional costs, expenses or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses or liabilities. Each applicable Borrower agrees to pay the above-described Fixed Rate Loan breakage fees and agree that this amount represents a reasonable estimate of the Fixed Rate Loan breakage costs, expenses and/or liabilities of Lender.

2.2 Letter of Credit Accommodations

- (a) Subject to and upon the terms and conditions contained herein, at the request of Borrower Agent, Lender agrees to provide or arrange for Letter of Credit Accommodations for the account of a Borrower containing terms and conditions acceptable to Lender and the issuer thereof. Any payments made by Lender to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to the applicable Borrower pursuant to this Section 2.
- (b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations for the account of a Borrower, the applicable Borrower shall pay to Lender a letter of credit fee at a rate equal to 2% per annum on the daily outstanding balance of such Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that applicable Borrower shall pay to Lender such letter of credit fee, at Lender's option, without notice, at a per annum rate equal to 5% per annum on such daily outstanding balance for: (i) the period from and after the date of termination or non-renewal hereof until Lender has received full and final payment of all Obligations (notwithstanding entry of a judgment against any Borrower), and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Lender. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year for US Dollar letters of credit and 365 (366 in a leap year) for CAD Dollar letters of credit and actual days elapsed and the obligation of the applicable Borrower to pay such fee shall survive the termination or non-renewal of this Agreement.
- (c) No Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, the Revolving Loans available to Borrowers (subject to the Maximum Credit, the applicable Operating Company Advance Limit and any Reserves) are equal to or greater than an amount equal to 100% of the face amount thereof and all other commitments and obligations made or incurred by Lender with respect thereto. Effective on the issuance of each Letter of Credit Accommodation, a Reserve shall be established in the applicable amount set forth in this Section.

- (d) Except in Lender's discretion, the Canadian Dollar Amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Lender in connection therewith, shall not at any time exceed \$5,000,000. At any time an Event of Default exists or has occurred and is continuing, upon Lender's request, applicable Borrower will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Lender for the Letter of Credit Accommodations.
- (e) Applicable Borrower shall indemnify and hold Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Lender may suffer or incur in connection with any Letter of Credit Accommodations and Lender shall be entitled to and is hereby authorized to set off any amount held by Lender to or for the benefit of Lender in connection with such indemnity and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation. Applicable Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed such Borrower's agent. Applicable Borrower assumes all risks for, and agrees to pay, all foreign, federal, provincial and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Credit Parties hereby release and hold each Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by a Borrower, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.
- (f) Nothing contained herein shall be deemed or construed to grant any Credit Party or Red Ash any right or authority to pledge the credit of Lender in any manner. Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Lender unless Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Credit Parties shall be bound by any interpretation made by Lender, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of any Operating Company. Lender shall have the sole and exclusive right and authority to, and a Borrower shall not (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods, or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders; and (ii) at all times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of,

any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Lender may take such actions either in its own name or in any applicable Borrower's name.

- (g) Any rights, remedies, duties or obligations granted or undertaken by a Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favour of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by such Person to Lender. Any duties or obligations undertaken by Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Lender in favour of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been undertaken by a Borrower to Lender and to apply in all respects to such Borrower.
- (h) If this Agreement is terminated for any reason while a Letter of Credit Accommodation is outstanding, or if after any prepayment of any Revolving Loan, such outstanding amount exceeds the applicable Operating Company Advance Limit or the Borrowing Base, then applicable Borrower shall promptly pay Lender in immediately available funds for deposit to Lender's account set up for this purpose, an amount equal, as the case may be, to either (a) such outstanding amount plus any anticipated fees and costs; or (b) the amount by which such outstanding amount exceeds the applicable Operating Company Advance Limit or the Borrowing Base. If such applicable Borrower fails to pay these amounts promptly, then Lender may in its sole discretion make an advance to pay these amounts and deposit the proceeds to such account. Such account shall be an interest bearing account maintained with Lender or any other financial institution acceptable to Lender. Lender may in its sole discretion apply amounts on deposit in such account to the Obligations. Applicable Borrower may not withdraw amounts deposited to such account until this Agreement has been terminated by Lender in writing and all outstanding letters of credit have either been returned to Lender or have expired and the Obligations have been indefeasibly repaid in full.

2.3 Reserves

All Loans and Letter of Credit Accommodations otherwise available to any Borrower pursuant to the lending formulas and subject to the Maximum Revolving Credit, the Term Loan Availability and other applicable limits hereunder shall be subject to Lender's continuing right to establish and revise Reserves and any amount in excess of such limits, shall be immediately repaid by the Borrowers to the Lender whether as a result of a change in NOLV, the forced liquidation value of the Waterloo Property, currency exchange or otherwise, without any notice or demand whatsoever.

2.4 Term Loans

Subject to the terms and conditions of this Agreement, Lender agrees to make a Term Loan pursuant to a single aggregate drawdown on the date hereof (collectively, the “**Term Loan**”) to CAD Borrowers by way of a Canadian Prime Rate Loans in an amount equal to the Term Loan Amount and any undrawn amount shall be permanently cancelled/terminated. The principal amount of the Term Loan shall be repaid in 84 equal monthly principal installments of \$55,357.14, each together with interest thereon at the applicable Interest Rate commencing on August 1, 2014 and the first day of each month thereafter.

The outstanding unpaid principal balance and all accrued and unpaid interest on the Term Loan shall be due and payable on the Termination Date. Any principal amount of the Term Loan that is repaid or prepaid may not be re-borrowed.

2.5 Currency Matters

Principal, interest, reimbursement obligations, fees and all other amounts payable under this Agreement and the other Financing Agreements to Lender shall be payable in the currency in which such obligations are denominated. Unless stated otherwise, all calculations, comparisons, measurements or determinations under this Agreement shall be made in CAD Dollars and Availability and Term Loan Availability shall be calculated in the CAD Dollar Equivalent. For the purpose of such calculations, comparisons, measurements or determinations, amounts denominated in other currencies shall be converted into the CAD Dollar Equivalent on the date of calculation, comparison, measurement or determination. In particular, without limitation, for purposes of calculating the Borrowing Base, Term Loan Availability or any Operating Company Advance Limit, unless expressly provided otherwise, where a reference is made to a dollar amount, the amount is to be considered as the amount of CAD Dollars and, therefore, each asset value and other currency shall be converted into the CAD Dollar Equivalent.

2.6 Mandatory Prepayments

- (a) Upon the issuance or incurrence by any Credit Party or any of its Subsidiaries of any Indebtedness that is not permitted hereunder, or the sale or issuance by any Credit Party or any of its Subsidiaries of any Capital Stock, applicable Borrower shall prepay the outstanding principal of the Obligations in an amount equal to 100% of the Net Cash Proceeds received by such Person in connection therewith. Each such prepayment shall be applied to the outstanding principal amount of the Term Loan until paid in full and then Revolving Loans (without permanently reducing the Revolving Loan Limit) until paid in full. The provisions of this Section shall not be deemed to be implied consent to any such issuance, incurrence or sale otherwise prohibited by the terms and conditions of this Agreement.

- (b) Upon the receipt by any Credit Party or any of its Subsidiaries of any Net Cash Proceeds of property insurance or condemnation awards in respect of an Event of Loss, applicable Borrower shall prepay the outstanding principal Obligations as follows:
- (i) For Events of Loss relating to Eligible Equipment or the Waterloo Property, in an amount equal to the greater of (x) the amount of the projected recovery in respect of the Eligible Equipment or the Waterloo Property, subject to such Event of Loss at such time on a Net Orderly Liquidation Value basis, and (y) 100% of the Net Cash Proceeds received by such Person in connection with such Event of Loss, to be applied by Lender, to the outstanding principal amount of the Term Loan until paid in full and then Revolving Loans (without permanently reducing the Revolving Loan Limit) until paid in full;
 - (ii) For all other Events of Loss, in an amount equal to 100% of the Net Cash Proceeds received by such Person in connection with such Disposition, to be applied by Lender to the outstanding principal amount of the Term Loan until paid in full and then Revolving Loans (without permanently reducing the Revolving Loan Limit) until paid in full.
- (c) Notwithstanding the foregoing, with respect to this Section 2.6, application to the Loans shall not be required in the case of receipt of Net Cash Proceeds with respect to Equipment thereunder if, but only if, (A) such proceeds, together with the aggregate amount of any other such proceeds during the then current fiscal year, are less than \$50,000, (B) such proceeds are used, within 180 days after the receipt thereof, to rebuild, repair or replace such assets of the applicable Credit Party's or Subsidiary's business with assets performing the same or similar functions, (C) no Default or an Event of Default has occurred and is continuing at the time such proceeds are received and at the time any such proceeds are to be expended to rebuild, repair or replace such properties or assets, (D) Borrower Agent delivers a certificate to Lender on or prior to the date of receipt of such proceeds stating that such proceeds shall be used to rebuild, repair or replace such assets of the applicable Credit Party's or Subsidiary's business within such 180 day time period (which certificate shall set forth an estimate of the proceeds to be so expended), and (E) upon receipt, such proceeds are used to prepay the Term Loan until paid in full and then Revolving Loans, and a Reserve is created in such amount, which Reserve shall be reduced on a dollar for dollar basis as such assets are rebuilt, repaired or replaced as provided above. If applicable Credit Party or Subsidiary has not timely used such proceeds, applicable Borrower shall apply such unused proceeds to prepay the Loans as provided above.

SECTION 3 - INTEREST AND FEES

3.1 Interest

- (a) Borrowers shall pay to Lender interest on the outstanding principal amount of the non-contingent Obligations at the applicable Interest Rate. Subject to the terms of this Section 3.1, Borrowers may borrow, repay and reborrow funds under the Revolving Loans by way of Canadian Prime Rate Loans, BA Rate Loans, U.S. Prime Rate Loans and LIBOR Rate Loans. Borrowers may enter into Lender Swap Agreements by way of Prime Rate Loans.
- (b) Interest shall be payable by Borrowers to Lender monthly in arrears not later than the first Business Day of each calendar month and shall be calculated on the basis of a 365 day year (and 366 day year in a leap year) in the case of Canadian Dollar Loans and a 360 day year in the case of US Dollar Loans, as applicable, and actual days elapsed. The interest rate shall increase or decrease by an amount equal to each increase or decrease in the Canadian Prime Rate, the BA Rate, or the U.S. Prime Rate or Daily Three Month LIBOR, as applicable, effective on the first day of the month after any change in such rate is announced. The increase or decrease shall be based on the applicable rate, in effect on the last day of the month in which any such change occurs. All interest accruing hereunder on and after an Event of Default or termination or non-renewal hereof shall be payable on demand. In no event shall charges constituting interest payable by any Borrower to Lender exceed the maximum amount or the rate permitted under any Applicable Law or regulation, and if any part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.
- (c) For purposes of disclosure under the *Interest Act* (Canada), where interest is calculated pursuant hereto at a rate based upon a 365 or 360 day year (the “**First Rate**”), it is hereby agreed that the rate or percentage of interest on a yearly basis is equivalent to such First Rate multiplied by the actual number of days in the year divided by 365 (and 366 for a leap year) or 360, as applicable.
- (d) Notwithstanding the provisions of this Section 3 or any other provision of this Agreement, in no event shall the aggregate “*interest*” (as that term is defined in Section 347 of the *Criminal Code* (Canada)) exceed the effective annual rate of interest on the “*credit advanced*” (as defined therein) lawfully permitted under Section 347 of the *Criminal Code* (Canada). The effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the term of the applicable Loan, and in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by Lender will be conclusive for the purposes of such determination.
- (e) A certificate of an authorized signing officer of Lender as to each amount and/or each rate of interest payable hereunder from time to time shall be conclusive evidence of such amount and of such rate, absent manifest error.

- (f) For greater certainty, whenever any amount is payable under this Agreement or any Financing Agreement by a Borrower as interest or as a fee which requires the calculation of an amount using a percentage per annum, each party to this Agreement acknowledges and agrees that such amount shall be calculated as of the date payment is due without application of the “*deemed reinvestment principle*” or the “*effective yield method*”. As an example, when interest is calculated and payable monthly, the rate of interest payable per month is $\frac{1}{12}$ of the stated rate of interest per annum.

3.2 Closing Fees

CAD Borrowers shall pay Lender a closing fee in the aggregate amount of \$125,000 which shall be fully earned on the execution and delivery of this Agreement and payable in two equal instalments with the first instalment due and payable on the date hereof and the second instalment due and payable on the first anniversary date of the date hereof.

3.3 Servicing Fee

CAD Borrowers shall pay Lender a monthly servicing fee in an amount equal to \$1,500 in respect of Lender’s services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of and payable in advance on the date hereof and on the first day of each month hereafter.

3.4 Unused Line Fee

CAD Borrowers shall pay to Lender a monthly an unused line fee at a rate equal to 0.25% per annum calculated upon the amount by which the Maximum Revolving Credit exceeds the Canadian Dollar Amount equal to the average daily principal balance of the outstanding Revolving Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect, and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

3.5 Letter of Credit Administrative Fees

Applicable Borrower shall pay all administrative fees incurred by Lender in connection with any Letter of Credit Accommodation or the honoring of drafts in connection with any Letter of Credit Accommodation, and any amendments to or transfers in connection with any Letter of Credit Accommodation, and any other activity with respect to any Letter of Credit Accommodation at the current rates published by Lender for such services rendered on behalf of its customers generally.

3.6 Changes in Laws and Increased Costs of Loans

- (a) If after the date hereof, either (i) any change in, or in the interpretation of, any law or regulation is introduced, including, without limitation, with respect to reserve requirements, applicable to Lender or any banking or financial institution from

whom Lender borrows funds or obtains credit (a “**Funding Bank**”), or (ii) a Funding Bank or Lender complies with any future guideline or request from any central bank or other Governmental Authority, or (iii) a Funding Bank or Lender determines that the adoption of any Applicable Law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof has or would have the effect described below, or a Funding Bank or Lender complies with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, and in the case of any event set forth in this clause (iii), such adoption, change or compliance has or would have the direct or indirect effect of reducing the rate of return on Lender’s capital as a consequence of its obligations hereunder to a level below that which Lender could have achieved but for such adoption, change or compliance (taking into consideration the Funding Bank’s or Lender’s policies with respect to capital adequacy), and the result of any of the foregoing events described in clauses (i), (ii) or (iii) is or results in an increase in the cost to Lender of funding or maintaining the Loans, the Letter of Credit Accommodations, then, within 5 Business Days after receipt by Borrower Agent of written demand by Lender, Borrowers shall pay to Lender additional amounts sufficient to indemnify Lender against such increased cost on an after-tax basis (after taking into account applicable deductions and credits in respect of the amount indemnified); provided, however, that Borrowers shall not be required to pay any additional amounts pursuant to this Section incurred more than 90 days prior to the date of the Lender’s demand therefor. Lender making any claim under this Section shall provide to Borrower Agent a certificate stating (including the calculation of any basis for, in reasonable detail) the amount of such claim, and such certificate shall be deemed conclusive, absent manifest error.

- (b) Notwithstanding any other provision herein, if the adoption of or any change in any law, treaty, rule or regulation or final, non-appealable determination of an arbitrator or a court or other Governmental Authority or in the interpretation or application thereof occurring after the date hereof shall make it unlawful for Lender to make or maintain LIBOR Rate Loans as contemplated by this Agreement, (i) Lender shall promptly give written notice of such circumstances to Borrower Agent (which notice shall be withdrawn whenever such circumstances no longer exist), (ii) the commitment of Lender hereunder to make LIBOR Rate Loans shall forthwith be cancelled and, until such time as it shall no longer be unlawful for Lender to make or maintain LIBOR Rate Loans, such Lender shall then have a commitment only to make a U.S. Prime Rate Loan when a LIBOR Rate Loan is requested, and (iii) Lender’s Loans then outstanding as LIBOR Rate Loans, if any, shall be converted automatically to U.S. Prime Rate Loans.
- (c) Borrowers shall indemnify Lender harmless from any loss or expense which Lender may sustain or incur as a consequence of (i) default by applicable Borrower in making a borrowing of, conversion into or extension of LIBOR Rate Loans after Borrower Agent has given a notice requesting the same in accordance

with the provisions of this Agreement, (ii) default by applicable Borrower in making any prepayment of a LIBOR Rate Loan after Borrower Agent has given a notice thereof in accordance with the provisions of this Agreement.

- (d) All payments made to Lender under any Financing Agreement shall be made free and clear of and without deduction or withholding for any and all taxes, levies, imposts, deductions, charges or withholdings and all related liabilities imposed by any country (or any political subdivision or taxing authority of it), unless such taxes are required by Applicable Law to be deducted or withheld. If any Credit Party is required by Applicable Law to deduct or withhold any such taxes from or in respect of any amount payable (A) each Credit Party shall make such deductions or withholdings, (B) each Credit Party will immediately pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law, and (C) if such tax is an Indemnified Tax, then such additional amount shall be immediately paid by the Credit Parties or if not so paid, the amount payable shall be increased (and, for greater certainty, in the case of interest the amount of interest shall be increased) as may be necessary so that after making all required deductions or withholdings (including deductions or withholdings applicable to any additional amounts paid hereunder), Lender receives an amount equal to the amount it would have received if no such deduction or withholding had been made.
- (i) Each Credit Party also hereby covenants and agrees to immediately pay any Other Taxes.
- (ii) Each Credit Party hereby indemnifies Lender for the full amount of Indemnified Taxes paid by Lender and any liability (including penalties, interest and expenses) arising from or with respect to such Indemnified Taxes whether or not they were correctly or legally asserted. Payment under this indemnification will be made within 30 days from the date Lender makes written demand for it; provided, however, that Borrowers shall not be required to pay any additional amounts pursuant to this Section incurred more than 90 days prior to the date of Lender's demand therefor. Lender making any claim under this Section shall provide to Borrower Agent a certificate stating (including the calculation of any basis for, in reasonable detail) the amount of such taxes, and such certificate shall be deemed conclusive, absent manifest error. Borrowers will furnish to Lender the original or a certified copy of a receipt evidencing payment pursuant to this Section of any taxes made within 30 days after the date of any payment of such taxes.
- (iii) If any participant or assign after the date hereof (each a "lender") is entitled to an exemption from or reduction of withholding tax with respect to payments made under any Financing Agreement shall deliver to the Borrower Agent, at the time or times reasonably requested by the Borrower Agent, such properly completed and executed documentation reasonably requested by the Borrower Agent as will permit such payments

to be made without withholding or at a reduced rate of withholding. In addition, any such lender, if reasonably requested by the Borrower Agent, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by the Borrower Agent as will enable the Borrowers to determine whether or not such lender is subject to backup withholding or information reporting requirements.

(1) Without limiting the generality of the foregoing, in the event that the Borrower is a U.S. Borrower:

(A) any lender that is a U.S. Person shall deliver to the Borrower Agent (from time to time upon the reasonable request of the Borrower Agent), executed originals of IRS Form W-9 certifying that such lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower Agent (in such number of copies as shall be requested by the recipient and from time to time upon the reasonable request of the Borrower Agent), whichever of the following is applicable:

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Financing Agreement, executed originals of IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “*interest*” article of such tax treaty, and (y) with respect to any other applicable payments under any Financing Agreement, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “*business profits*” or “*other income*” article of such tax treaty;

(2) executed originals of IRS Form W-8ECI;

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of **Exhibit J-I** to the effect that such Foreign Lender is not a “*bank*” within the meaning of Section 881(c)(3)(A) of the Code, a “*10% shareholder*” of the Borrowers within the meaning of Section 881(c)(3)(B) of the Code, or a “*controlled foreign corporation*” described in

Section 881(c)(3)(C) of the Code (a “**U.S. Tax Compliance Certificate**”), and (y) executed originals of IRS Form W-8BEN; or

- (4) to the extent a Foreign Lender is not the beneficial owner, executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN, a U.S. Tax Compliance Certificate substantially in the form of **Exhibit J-2** or **Exhibit J-3**, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of **Exhibit J-4** on behalf of each such direct and indirect partner;
- (C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower Agent (in such number of copies as shall be requested by the recipient from time to time thereafter upon the reasonable request of the Borrower Agent), executed originals of any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by Applicable Law to permit the Borrower Agent to determine the withholding or deduction required to be made;
 - (D) if a payment made to lender under any Financing Agreement would be subject to U.S. federal withholding Tax imposed by FATCA if such lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such lender shall deliver to the Borrower Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower Agent such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower Agent as may be necessary for the Borrower Agent to comply with their obligations under FATCA and to determine that such lender has complied with such lender’s obligations under FATCA or to determine the amount to

deduct and withhold from such payment. Solely for purposes of this clause (D), “*FATCA*” shall include any amendments made to FATCA after the date of this Agreement; and

- (E) Each such lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower Agent in writing of its legal inability to do so.
- (e) The provisions of this Section shall survive the termination or any non-renewal of this Agreement.

SECTION 4 - CONDITIONS PRECEDENT

4.1 Conditions Precedent to Initial Loans and Letter of Credit Accommodations

Each of the following is a condition precedent to Lender making the initial Loans and providing the initial Letter of Credit Accommodations hereunder:

- (a) Lender shall have received evidence (including, without limitation, any subordinations, inter-creditor agreements or terminations, releases or discharges of any other Liens in the Collateral required by Lender), in form and substance satisfactory to Lender, such that Lender has valid perfected and first priority Lien upon the Collateral, including the Waterloo Property and the Real Property owned by Barrett Carpet Mills Inc., and any other property which is intended to be security for the Obligations or the liability of any Credit Party or Red Ash in respect thereof, subject only to Permitted Liens;
- (b) all requisite corporate, company or partnership action, as applicable, and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Lender, and Lender shall have received all information and copies of all documents, including records of requisite corporate, company or partnership action and proceedings which Lender may have requested in connection therewith, such documents where requested by Lender or its counsel to be certified by appropriate corporate officers or Governmental Authority (and including a copy of the certificate of incorporation or formation of each Credit Party and Red Ash certified by the Secretary of State (or equivalent Governmental Authority) which shall set forth the same complete corporate name of each Credit Party as is set forth herein and such document as shall set forth the organizational identification number of each Credit Party and Red Ash, if one is issued in its jurisdiction of incorporation or formation);
- (c) no Material Adverse Effect shall have occurred since the date of Group Members’ most recent audited financial statements and no change or event shall have occurred which would impair the ability of Credit Parties and Red Ash to perform

its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce the Obligations or realize upon the Collateral;

- (d) each Operating Company shall have established a cash management system with Reference Bank (or such other bank as may be acceptable to Lender) in form and substance reasonably satisfactory to Lender, including lockboxes and/or blocked accounts for collections and the transfer thereof to Lender, and subject to Deposit Account Control Agreements by and among Lender, a Credit Party and Reference Bank (or each other bank, including in the US and Australia, where any Credit Party has a deposit account, as applicable), in each case, duly authorized, executed and delivered by such bank and such Operating Company, which Deposit Account Control Agreements shall be in form and substance reasonably acceptable to Lender;
- (e) Lender shall have completed a field review of the Records and such other information with respect to the Collateral as Lender may, in its sole discretion, require to determine the amount of Revolving Loans available to Borrowers, the results of which shall be satisfactory to Lender, not more than 60 days prior to the date hereof;
- (f) Lender shall have received, in form and substance satisfactory to Lender, all consents, waivers, estoppels, licenses, acknowledgments, non-disturbance, use, freight forwarder and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect its Liens upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including, without limitation, (i) acknowledgments by lessors, mortgagees and warehousemen of Lender's Liens in the Collateral, waivers or subordinations by such persons of any Liens by such persons to the Collateral and agreements permitting Lender access to, and the right to remain on, the premises to exercise its rights and remedies and otherwise deal with the Collateral; (ii) consents and subordinations from any third parties to distribution agreements, as may be required by Lender; (iii) such other subordination and/or standstill agreements or intercreditor agreements, upon terms satisfactory to the Lender in its sole discretion, in respect of any indebtedness for borrowed money, including, without limitation, the Intercreditor Agreement and all other applicable postponement and subordination of shareholder, related party/affiliate and inter-company indebtedness and security, all in form and substance satisfactory to Lender in its sole discretion;
- (g) Lender shall have completed with results satisfactory to it, all vendor and customer references, invoice verifications, review of all material contracts, leases and license agreements and credit and/or background investigations of all Credit Parties and Red Ash and their senior officers and directors, as required by law or as Lender may require;

- (h) Lender shall have received evidence of insurance (including flood, all risks and any applicable accounts receivable insurance) and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Lender, and certificates of insurance policies and/or endorsements naming Lender as first loss payee and additional insured with a standard mortgage clause applying to all Collateral;
- (i) Lender shall have received, in form and substance satisfactory to Lender, such opinion letters of counsel to the Credit Parties and Red Ash with respect to the Financing Agreements and such other matters as Lender may request;
- (j) the other Financing Agreements and all instruments and documents hereunder and thereunder shall have been duly executed, delivered and established, to the satisfaction of Lender;
- (k) Excess Availability as determined by Lender shall be at least \$5,000,000 after giving effect to the initial Revolving Loans and Letter of Credit Accommodations made or to be made hereunder and after paying out Red Ash's current operating facility with Crystal Financial LLC and all trade payables older than 60 days past their due date, book overdrafts and closing costs;
- (l) **[Intentionally deleted]**
- (m) Lender's receipt and satisfactory review of a Real Property appraisal confirming a forced sale value of not less than \$10,000,000 and a phase 2 environmental survey regarding the Waterloo Property;
- (n) Lender's receipt and satisfactory review of the Credit Parties' Material Contracts;
- (o) Lender's receipt of and review to its satisfaction of Group Members' audited 2012 fiscal year end, their unaudited June 2013 month-end financial statements and Operating Companies' monthly income statement, balance sheet and cash flow projections for a minimum of 12 months prepared on a monthly basis for fiscal year 2013.
- (p) all tax matters and implications shall be satisfactory to Lender, including but not limited to compliance with all applicable requirements of Federal, State, Provincial, county, local, foreign and other tax regulations;
- (q) all fees due and payable hereunder as of the date hereof shall have been received by Lender;
- (r) all other financial statements and information and reports reasonably required by Lender shall have been received by Lender; and
- (s) Lender shall have received in respect of the AUS Operating Company in form and substance satisfactory to the Lender (a) a duly executed statutory declaration from a director of the AUS Operating Company relating to the location (and if all assets

not located in a single state or territory, the value) of the assets of the AUS Operating Company, (b) a duly executed amendment to the constitution of the AUS Operating Company to amend restrictions on transfer of shares, (c) a certified copy of the share register for the AUS Company and (d) in respect of the shares of the AUS Operating Company, the original share certificates for all shares issued by the AUS Operating Company together with duly executed transfers in blank for each share certificate;

4.2 Conditions Precedent to All Revolving Loans and Letter of Credit Accommodations

Each of the following is an additional condition precedent to Lender making Revolving Loans, Lender Swap Agreements and/or providing Letter of Credit Accommodations to Borrowers, including the initial Loans and Letter of Credit Accommodations and any future Revolving Loans and Letter of Credit Accommodations:

- (a) all representations and warranties contained herein and in the other Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan, entering into Lender Swap Agreements or providing each such Letter of Credit Accommodation and after giving effect thereto, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and accurate on and as of such earlier date);
- (b) no law, regulation, order, judgment or decree of any Governmental Authority shall exist, and no action, suit, investigation, litigation or proceeding shall be pending or threatened in any court or before any arbitrator or Governmental Authority, which (i) purports to enjoin, prohibit, restrain or otherwise affect (A) the making of the Loans, entering into Lender Swap Agreements or providing the Letter of Credit Accommodations, or (B) the consummation of the transactions contemplated pursuant to the terms hereof or the other Financing Agreements, or (ii) has or could reasonably be expected to have a Material Adverse Effect; and
- (c) no Default or Event of Default shall exist or have occurred and be continuing on and as of the date of the making of such Loan, entering into Lender Swap Agreements or providing each such Letter of Credit Accommodation and after giving effect thereto.

SECTION 5 - SWAP AGREEMENTS

5.1 Swap Agreements

Credit Parties shall not enter into any Swap Agreements other than Lender Swap Agreements, without the prior written consent of the Lender which may be withheld by Lender in its discretion.

SECTION 6 - COLLECTION AND ADMINISTRATION

6.1 Borrower's Loan Account

Lender shall maintain one or more loan account(s) on its books in which shall be recorded (a) all Loans, Letter of Credit Accommodations and other Obligations of each of the Borrowers, and by currency, and the Collateral, (b) all payments made by or on behalf of Borrowers, and (c) all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest. All entries in the loan account(s) shall be made in accordance with Lender's customary practices as in effect from time to time.

6.2 Statements

Lender shall render to Borrower Agent each month a statement setting forth the balance in each Borrowers' loan account(s) maintained by Lender for Borrowers pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Lender but shall, absent manifest errors or omissions, be considered correct and deemed accepted by the Credit Parties and conclusively binding upon the Credit Parties and Red Ash as an account stated except to the extent that Lender receives a written notice from Borrower Agent of any specific exceptions of a Borrower thereto within 30 days after the date such statement has been sent by Lender. Until such time as Lender shall have rendered to Borrower Agent a written statement as provided above, the balance in Borrowers' loan account(s) shall be presumptive evidence of the amounts due and owing to Lender by Borrowers.

6.3 Collection of Accounts

(a) Each Operating Company shall establish and maintain, at its expense, lockboxes and related blocked accounts (in the case of US Operating Companies', lockboxes, in the case of CAD Operating Companies, blocked accounts, in the case of AUS Operating Company, blocked accounts, in each case hereinafter referred to as, "**Blocked Accounts**"), as Lender may specify, with such banks as are acceptable to Lender into which such Operating Company shall promptly deposit, and US Borrowers shall direct its account debtors to directly remit within 90 days of the date hereof, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form and currency in which such payments are made, whether by cash, cheque or other manner. Each Operating Company shall deliver, or cause to be delivered to Lender, a Depository Account Control/Blocked Account/Lockbox Agreement, as applicable, duly authorized, executed and delivered by each bank where a Blocked Account is maintained as provided herein or at any time and from time to time Lender may become bank's customer with respect to the Blocked Accounts and promptly upon Lender's request, such Operating Company shall execute and deliver such agreements or documents as Lender may require in connection therewith. Each Credit Party and Red Ash agrees that all payments made to such Blocked Accounts and all other funds received and collected by Lender, whether

in respect of the Accounts, as proceeds of Inventory or other Collateral or otherwise shall be transferred daily to the applicable Agent Payment Account and in accordance with the definition of Agent Payment Account herein (in the case of the AUS Operating Company, upon a Default or an Event of Default to be held in an AUD\$ account to be re-advanced based on Availability via a Revolving Loan to a CAD Borrower and intercompany advance by such Borrower to AUS Operating Company to be received by AUS Operating Company in AUD\$) and shall be treated as payments to Lender in respect of the Obligations to be applied as set forth herein and therefore shall constitute the property of Lender to the extent of the then outstanding Obligations.

Each Credit Party and Red Ash hereby irrevocably authorizes and directs Lender to sweep any and all funds deposited in the Blocked Accounts on a daily basis pursuant to the cash management arrangements contemplated herein and to apply any and all such funds to the outstanding Obligations to be applied as set forth herein and hereby expressly acknowledge, confirm, covenant and agree that such funds may only be re-advanced in respect of the Revolving Loans subject to and in accordance with the provisions hereof, that the cash management arrangements contemplated herein are provided to Lender in order for it to manage and monitor its collateral security and is a contractual right granted to Lender and not pursuant to, or as an enforcement of, any security whatsoever, or as a proceeding for the enforcement or recovery of a claim, that such cash management arrangements are critical to the structure of the lending arrangements contemplated herein and that Lender is relying on this acknowledgement, confirmation and agreement in respect thereto in making accommodations of credit available and in particular that any accommodations of credit are being provided by Lender strictly on the basis of a borrowing base calculation to fully support and collateralize any such accommodations of credit hereunder. Each Credit Party and Red Ash hereby further acknowledges, confirms and agrees that Lender shall not at any time be required to extend any credit in excess of the borrowing base calculation hereunder and that any accommodation of credit in excess of such borrowing base calculation is and shall be deemed to be, a "*further extension of credit*" for purposes of any Canadian insolvency laws which each Credit Party and Red Ash acknowledges, confirms and agrees, Lender is not required to make at any time or under any circumstances whatsoever.

- (b) For purposes of calculating the amount of the Revolving Loans available to Borrowers, such payments will be applied (conditional upon final collection) to the Obligations (exclusive of Swap Agreements) on the Business Day of receipt by Lender of immediately available funds in the Agent Payment Account provided such payments and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit the applicable Borrower's loan account on such day, and if not, then on the next Business Day. For the purposes of calculating interest on the Obligations (exclusive of Swap Agreements), such payments or other funds received will be applied (conditional upon final collection) to the Obligations on the date of receipt of immediately available funds by Lender in the Agent

Payment Account provided such payments or other funds and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit the applicable Borrower's loan account on such day, and if not, then on the next Business Day. If Lender receives funds in an Agent's Payment Account at any time at which no Obligations (exclusive of Swap Agreements) are outstanding or in excess of such outstanding Obligations, Lender shall transfer such funds to the applicable Borrower at such account as Borrower Agent may direct. For greater certainty, any and all standard costs and fees associated with any money transfers or wires shall be charged to the applicable Borrower and form part of the Obligations at rates and in accordance with Lender's standard and customary practices.

- (c) Each Credit Party and Red Ash and its shareholders, directors, employees, agents, Subsidiaries or other Affiliates shall, acting as trustee for Lender, receive, as the property of Lender, any monies, cheques, notes, drafts or any other payment relating to and/or proceeds of Accounts, Inventory or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts, or remit the same or cause the same to be remitted, in kind, to Lender. In no event shall the same be commingled with any Credit Party's and Red Ash's own funds. Each Credit Party agrees to reimburse Lender on demand for any amounts owed or paid to any bank at which a Blocked Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts arising out of Lender's payments to or indemnification of such bank or person. The obligation of each Credit Party to reimburse Lender for such amounts pursuant to this Section shall survive the termination or non-renewal of this Agreement.

6.4 Payments

- (a) All Obligations (other than obligations in connection with any Swap Agreement and which shall be paid in accordance with the terms hereof) shall be payable to the applicable Agent Payment Account as provided herein or such other place as Lender may designate from time to time. Lender may apply payments received or collected from Credit Parties or for the account of the applicable Borrower (including the monetary proceeds of collections or of realization upon any Collateral) to such of the Obligations, whether or not then due, in such order and manner as Lender determines. At Lender's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements or in respect of any breakage costs for any Fixed Rate Loans or any Swap Agreement may be charged directly to the loan account(s) of applicable Borrower. Subject to, and in accordance with the terms of this Agreement, the Credit Parties shall make all payments to Lender on the Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind unless required by Applicable Law. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Lender is required to surrender

or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Credit Parties shall be liable to pay to Lender, and do hereby indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

- (b) Notwithstanding anything to the contrary contained in this Agreement, all payments in respect of the Obligations shall be applied first to respective Obligations of the respective Borrowers denominated in the same currency as the payments received; provided, that upon an Event of Default: (x) payments and collections received in any currency other than the currency in which any outstanding Obligations are denominated will be accepted and/or applied at the discretion of Lender; (y) in the event that Lender elects to accept and apply such amounts when there are no Obligations then outstanding in the same currency, Lender may, at its option (but is not obligated to), convert such currency received to the currency in which the Obligations are denominated at the Spot Rate on such date (regardless of whether such rate is the best available rate); and (z) in such event, applicable Borrower shall pay the costs of such conversion (or Lender may, at its option, charge such costs to the loan account of applicable Borrower maintained by Lender).

6.5 Authorization to Make Revolving Loans

- (a) Lender is authorized to make the Revolving Loans and provide the Letter of Credit Accommodations based upon telephonic or other instructions received from anyone purporting to be an officer of Borrower Agent or other authorized person or, at the discretion of Lender, if such Revolving Loans are necessary to satisfy any Obligations. All requests for Revolving Loans or Letter of Credit Accommodations hereunder shall (a) specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a Business Day), (b) the amount of the requested Loan or Letter of Credit Accommodation, and (c) which Operating Company is to ultimately receive the proceeds of the Loans or to which Borrower the Letter of Credit Accommodation is to be allocated. Requests received after 11:00 a.m. Toronto time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Revolving Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, a Borrower when deposited to the credit of such Borrower or otherwise disbursed or established in accordance with the instructions of Borrower Agent or in accordance with the terms and conditions of this Agreement.

- (b) All Loans provided to Borrowers by Lender shall be in or denominated in US Dollars or Canadian Dollars at the request of Borrower Agent but may, at the request of the Borrower Agent, be converted by Lender in accordance herewith to AUD\$ in respect of any proceeds of any Revolving Loans to be advanced as an intercompany loan by a CAD Borrower to, and to be received by, AUS Operating Company.

6.6 Use of Proceeds

Borrowers shall use the initial proceeds of the Loans provided by Lender to Borrowers hereunder only for (a) payments to each of the persons listed in the disbursement direction letter furnished by Borrowers to Lender on or about the date hereof including intercompany loans by CAD Borrowers to Kraus Properties LP and Kraus Brands LP to enable each of them and the CAD Borrower to repay intercompany indebtedness owing to Red Ash so as to enable Red Ash to repay in full Red Ash's credit facility with Crystal Financial LLC, and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements. All other Revolving Loans or Letter of Credit Accommodations provided by Lender to Borrowers pursuant to the provisions hereof shall be used by Borrowers only for general operating, working capital and other proper corporate purposes of the Operating Companies not otherwise prohibited by the terms hereof. None of the proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "*purpose credit*" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended.

SECTION 7 - COLLATERAL REPORTING AND COVENANTS

7.1 Collateral Reporting

Borrower Agent shall provide Lender with respect to each Operating Company with the following documents in a form satisfactory to Lender:

- (a) on a weekly or more frequent basis as required by the Lender, a schedule of Accounts, sales made, credits issued and cash received and a duly completed and executed Borrowing Base Certificate for each Borrower, in substantially the form attached hereto as Schedule 7.1, together with any information which the Lender requests in connection therewith, which Borrowing Base Certificate shall, in no event, be deemed to limit, impair or otherwise affect the rights of the Lender contained in this Agreement and in the event of any conflict or inconsistency between the calculations made in the Borrowing Base Certificate and those made by the Lender, although the Lender shall be under no obligation to make its own calculations, those made by the Lender shall be binding and conclusive on the Credit Parties and Red Ash absent manifest error;

- (b) on a monthly or more frequent basis within 15 days after each month end or more frequently as required by the Lender, a month-end general ledger trial balance, a reconciled agings of accounts receivable and a reconciled perpetual Inventory report by category, location and aging and detailing on a schedule thereto with respect to Eligible In-Transit Inventory, each shipment date, estimated time of arrival, ocean carrier, vessel number, vendor, amount, freight forwarder and any other information/details required by Lender, and a duly completed and executed Borrowing Base Certificate for each Borrower, in substantially the form attached hereto as Schedule 7.1, together with any information which the Lender requests in connection therewith, which Borrowing Base Certificate shall, in no event, be deemed to limit, impair or otherwise affect the rights of the Lender contained in this Agreement and in the event of any conflict or inconsistency between the calculations made in the Borrowing Base Certificate and those made by the Lender, although the Lender shall be under no obligation to make its own calculations, those made by the Lender shall be binding and conclusive on the Credit Parties absent manifest error;
- (c) on a monthly basis within 15 days after each month end or more frequently as the Lender may request, a reconciled agings of accounts payable;
- (d) on a monthly basis within 15 days after each month end or more frequently as the lender may request, bank statements for all bank accounts of all Operating Companies specifically including bank statements for all bank accounts of AUS Operating Company;
- (e) on a monthly basis within 15 days after each month end or more frequently as the Lender may require, a schedule of Priority Payables;
- (f) upon the Lender's request, (i) copies of customer statements and credit memos, remittance advices and reports and copies of deposit slips, (ii) evidence of payment of all amounts in respect of Reserves in respect of Priority Payables, taxes, rent, payments to third party secured creditors, royalties, license, distribution arrangement and insurance payments, (iii) copies of shipping and delivery documents, and (iv) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired;
- (g) such other reports as to the Collateral as the Lender shall request from time to time;
- (h) If any Operating Company's records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper, freight forwarder, customs broker or other agent, such Credit Party hereby irrevocably authorizes any such person to deliver such records, reports, and related documents to Lender and to follow Lender's instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

7.2 Accounts Covenants

- (a) Borrower Agent with respect to each Operating Company shall notify Lender promptly of: (i) any material delay in such Operating Company's performance of any of its obligations to any account debtor owing more than \$50,000 or the assertion of any claims, offsets, defenses or counterclaims by any such account debtor, or any disputes with such account debtors, or any settlement, adjustment or compromise thereof, (ii) all material adverse information relating to the financial condition of any account debtor owing more than \$50,000 and (iii) any event or circumstance which, to any Operating Company's knowledge, would cause Lender to consider any then existing Accounts as no longer constituting Eligible Accounts. No credit, discount, allowance, markdown or extension or agreement for any of the foregoing shall be granted to any account debtor without Lender's consent, except in the ordinary course of such Operating Company's business in accordance and consistent with its historical practice. So long as no Event of Default exists or has occurred and is continuing, each Operating Company may settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Lender shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.
- (b) With respect to each Account: (i) the amounts shown on any invoice delivered to Lender or schedule thereof delivered to Lender shall be true and complete, (ii) no payments shall be made thereon except payments immediately delivered to Lender pursuant to the terms of this Agreement, (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Lender in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of each Operating Company's business in accordance with practices and policies previously disclosed to Lender, (iv) there shall be no setoffs, deductions, contra, defenses, counterclaims or disputes existing or asserted with respect thereto except as reported to Lender or permitted in accordance with the terms of this Agreement, (v) none of the transactions giving rise thereto will violate any applicable foreign, Federal, State, Provincial or local laws or regulations or Australian Laws, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.
- (c) Lender shall have the right at any time or times, in Lender's name or in the name of a nominee of Lender, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission, email or otherwise.
- (d) Borrower Agent shall deliver or cause to be delivered to Lender, with appropriate endorsement and assignment, with full recourse, all chattel paper and instruments which any Operating Company now owns or may at any time acquire

immediately upon any Operating Company's receipt thereof, which Lender may require.

- (e) Lender may, at any time or times that an Event of Default exists or has occurred and is continuing, (i) notify any or all account debtors that the Accounts have been assigned to Lender and that Lender has a Lien therein and Lender may direct any or all accounts debtors to make payment of Accounts directly to Lender; (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations; (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto; and (iv) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Borrowers shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

7.3 Inventory Covenants

- (a) With respect to the Inventory:
- (i) each Operating Company shall at all times maintain inventory records reasonably satisfactory to Lender, keeping correct and accurate records itemizing and describing all the kind, type, quality and quantity and date of purchase of Inventory, such Operating Company's cost therefor and daily withdrawals therefrom and additions thereto;
 - (ii) each Operating Company shall conduct a physical count of the Inventory at least on an annual basis, but at any time or times as Lender may request on or after and during the continuance of an Event of Default, and promptly following such physical inventory shall supply Lender with a report in the form and with such specificity as may be reasonably satisfactory to Lender concerning such physical count;
 - (iii) no Operating Company shall remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Lender, except for sales of Inventory in the ordinary course of such Operating Company's business except to move Inventory directly from one location set forth or permitted herein to another such location and except for

Inventory shipped from the manufacturer thereof to such Operating Company which is in transit to the locations set forth or permitted herein;

- (iv) upon Lender's request, each Operating Company shall, at its expense, on a semi-annual basis (provided no Default or Event of Default and on as frequent a basis as Lender may require upon a Default or an Event of Default) as required by Lender, deliver or cause to be delivered to Lender written reports or appraisals as to the Inventory in form, scope and methodology acceptable to Lender and by an appraiser acceptable to Lender, addressed to Lender and upon which Lender is expressly permitted to rely;
 - (v) each Operating Company shall produce, use, store and maintain the Inventory with all reasonable care and caution and in accordance with applicable standards of any insurance and, except for such noncompliance which would not reasonably be expected to have a Material Adverse Effect, in conformity with Applicable Laws (including the requirements of the *Federal Fair Labor Standards Act* of 1938, as amended and all rules, regulations and orders related thereto);
 - (vi) none of the Inventory or other Collateral constitutes farm products or the proceeds thereof;
 - (vii) each applicable Operating Company assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory;
 - (viii) no Operating Company shall, without prior written notice to Lender, sell Inventory to any customer on approval, or any other basis which entitles the customer to set off any amounts owing to it or to return, or may obligate such Operating Company to repurchase, such Inventory;
 - (ix) each Operating Company shall keep the Inventory in good and marketable condition; and
 - (x) no Operating Company shall, without prior written notice to Lender of the specific identification of such Inventory with respect thereto provided by such Operating Company to Lender, acquire or accept any Inventory on consignment or approval or pursuant to a purchase money security interest.
- (b) Without limiting the obligation of Credit Parties to deliver any other information to Lender, Borrower Agent shall promptly report to Lender any return of Inventory by any one account debtor if the inventory so returned in such case has a Value in excess of \$50,000. At any time that Inventory is returned, reclaimed or repossessed, the Account (or portion thereof) which arose from the sale of such returned, reclaimed or repossessed Inventory shall not be deemed an Eligible Account. In the event any account debtor returns Inventory when an Event of

Default exists or has occurred and is continuing, the applicable Operating Company shall, upon Lender's request, (i) hold the returned Inventory in trust for Lender; (ii) segregate all returned Inventory from all of its other property; (iii) dispose of the returned Inventory solely according to Lender's instructions; and (iv) not issue any credits, discounts or allowances with respect thereto without Lender's prior written consent.

7.4 Equipment and Real Property Covenants

With respect to the Equipment and the Real Property: (a) upon Lender's request, Borrower Agent with respect to each Operating Company shall, at its expense, upon request by the Lender, which for greater certainty, may be twice in the first year of the Loan and thereafter not more than once a year provided there is no Default and no Event of Default and on a more frequent basis upon a Default and no Event of Default regarding Equipment, not more than once a year provided there is no Default and no Event of Default regarding any owned North American Real Property and on as frequent a basis as Lender may require upon a Default or an Event of Default, deliver or cause to be delivered to Lender written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Lender and by an appraiser acceptable to Lender, addressed to Lender and upon which Lender is expressly permitted to rely; (b) each Operating Company shall keep the Equipment and the Real Property in good order, repair, running and marketable condition (ordinary wear and tear excepted); (c) each Operating Company shall use the Equipment and the Real Property with all reasonable care and caution and in accordance with applicable standards of any insurance and, except for such noncompliance which would not reasonably be expected to have a Material Adverse Effect, in conformity with all Applicable Laws; (d) the Equipment is and shall be used in each Operating Company's business and not for personal, family, household or farming use; (e) no Operating Company shall remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of such Operating Company or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of such Operating Company in the ordinary course of business; (f) the Equipment is now and shall remain personal property and no Operating Company shall permit any of the Equipment to be or become a part of or affixed to any real property; and (g) each Operating Company assumes all responsibility and liability arising from the use of the Equipment and the Real Property.

7.5 Power of Attorney

Each Credit Party hereby irrevocably designates and appoints Lender (and all persons designated by Lender) as its true and lawful attorney-in-fact (which appointment is coupled with an interest), and authorizes Lender, in its or Lender's name, to: (a) at any time a Default or an Event of Default exists or has occurred and is continuing (i) demand payment on Accounts or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of such Operating Company's rights and remedies to collect any Accounts or other Collateral, (iv) sell or assign any Accounts

upon such terms, for such amount and at such time or times as Lender deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Accounts, (vii) prepare, file and sign in such Credit Party's name on any proof of claim in bankruptcy or other similar document against an account debtor or other obligor in respect of any Accounts or other Collateral, (viii) notify the post office authorities to change the address for delivery of remittances from account debtors or other obligors in respect of Accounts or other proceeds of Collateral to an address designated by Lender, and open and dispose of all mail addressed to such Credit Party's and handle and store all mail relating to the Collateral; and (ix) do all acts and things which are necessary, in Lender's determination, to fulfill such Operating Company's and Red Ash's obligations under this Agreement and the other Financing Agreements, and (b) at any time to (i) take control in any manner of any item of payment in respect of Accounts or constituting Collateral or otherwise received in or for deposit in the Blocked Accounts or otherwise received by Lender, (ii) have access to any Blocked Account, lockbox or postal box into which remittances from account debtors or other obligors in respect of Accounts or other proceeds of Collateral are sent or received, (iii) endorse Operating Company's name upon any items of payment in respect of Accounts or constituting Collateral or otherwise received by Lender and deposit the same in Lender's account for application to the Obligations, (iv) endorse such Operating Company's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Accounts or any goods pertaining thereto or any other Collateral, including any warehouse or other receipts, or bills of lading and other negotiable or non-negotiable documents, (v) clear Inventory the purchase of which was financed with Letter of Credit Accommodations through U.S. Customs or Canada Border Services Agency or foreign export control authorities in such Operating Company's name, Lender's name or the name of Lender's designee, and to sign and deliver to customs officials powers of attorney in such Operating Company's name for such purpose, and to complete in such Operating Company's or Lender's name, any order, sale or transaction, obtain the necessary documents in connection therewith and collect the proceeds thereof, (vi) sign such Operating Company's name on any verification of Accounts and notices thereof to account debtors and file any PPSA or other financing statements or amendments thereto in respect of any Credit Party or Red Ash. Each Credit Party and Red Ash hereby releases Lender and their officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Lender's own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

7.6 Right to Cure

Lender may, at its option with notice to Borrower Agent, (a) cure any default by any Credit Party under any material agreement with a third party that affects the Collateral, its value or the ability of Lender to collect, sell or otherwise dispose of the Collateral or the rights and remedies of Lender therein or the ability of such Credit Party to perform its obligations hereunder or under the other Financing Agreements, (b) pay or bond on appeal any judgment entered against any Credit Party, (c) discharge taxes or Liens, at any time levied on or existing with respect to the Collateral, and (d) pay any amount, incur

any expense or perform any act which, in Lender's reasonable credit discretion, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Lender with respect thereto. Lender may add any amounts so expended to the Obligations and charge Borrowers' account therefor, such amounts to be repayable by applicable Borrower on demand. Lender shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of any Credit Party or Red Ash. Any payment made or other action taken by Lender under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

7.7 Access to Premises

From time to time as requested by Lender, at the cost and expense of Borrowers, (a) Lender or its designee shall have complete unfettered access to all of each Credit Party's premises including the Real Property during normal business hours and after reasonable notice to such Borrower Agent, or at any time without limit and without notice if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of such Credit Party's books and records, including the Records; and (b) Credit Parties shall promptly furnish to Lender such copies of such books and records including the Records, or extracts therefrom as Lender may request; and (c) use during normal business hours such of their personnel, equipment, supplies and premises including the Real Property as may be necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 8 - REPRESENTATIONS AND WARRANTIES

Lender hereby represents and warrants to Credit Parties and Red Ash that it is not a non-resident for purposes of the *Income Tax Act* (Canada).

Each Credit Party hereby represents and warrants to Lender the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations to Borrowers, and entering into any Lender Swap Agreements:

8.1 Corporate Existence; Power and Authority

Each of the Credit Parties and Red Ash is a corporation, limited liability company, unlimited liability company, general partnership, proprietary company or limited partnership, as applicable, duly organized and in good standing under the laws of its state or province of incorporation or formation, as applicable, and is duly qualified as a foreign corporation, limited liability company, unlimited liability company, general partnership, proprietary company or limited partnership, as applicable, and in good standing in all provinces, states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not be reasonably likely to have a Material Adverse Effect. The execution, delivery and performance of this

Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder (a) are all within such Credit Party's and Red Ash's corporate, limited liability company, unlimited liability company, general partnership or limited partnership powers, as applicable, (b) have been duly authorized, (c) are not in contravention of law or the terms of such Credit Party's or Red Ash's certificate of incorporation or formation, by-laws, operating agreement, constitution, or partnership agreement, or other organizational documentation, or any material indenture, material agreement or material undertaking to which such Credit Party or Red Ash is a party or by which such Credit Party or Red Ash or its property are bound, and (d) will not result in the creation or imposition of, or require or give rise to any obligation to grant, any Lien upon any property of such Credit Party or Red Ash, other than in favour of Lender. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of such Credit Party and Red Ash enforceable in accordance with their respective terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity and subject to any necessary stamping or registration.

8.2 Financial Statements; No Material Adverse Change

All financial statements relating to the Credit Parties which have been or may hereafter be delivered to Lender have been prepared in accordance with GAAP and fairly present in accordance with GAAP the financial condition and the results of operation of the Credit Parties as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished to Lender prior to the date of this Agreement, no Material Adverse Effect has occurred since the date of the most recent audited financial statements furnished to Lender prior to the date of this Agreement.

8.3 Name; State of Organization; Chief Executive Office; Collateral Locations

- (a) The exact legal name of each Credit Party and Red Ash is as set forth on the signature page of this Agreement and in the Information Certificate. Each Credit Party and Red Ash has not, during the past five years, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in the Information Certificate.
- (b) Each Credit Party and Red Ash is an organization of the type and organized in the jurisdiction set forth in the Information Certificate. The Information Certificate accurately sets forth the organizational identification number of such Credit Party and Red Ash or accurately states that such Credit Party and Red Ash has none and accurately sets forth the federal employer identification number, as applicable, of such Credit Party and Red Ash.
- (c) The chief executive office and mailing address of each Operating Company's and Credit Party's and Red Ash's Records concerning Accounts are located only at the address identified as such in the Information Certificate and its only other

places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of such Operating Company to establish new locations in accordance herewith. The Information Certificate correctly identifies any of such locations which are not owned by such Operating Company and sets forth the owners and/or operators thereof and to the best of the Credit Parties' knowledge, the holders of any mortgages on such locations.

8.4 Priority of Liens; Title to Properties

The Liens granted to Lender under this Agreement and the other Financing Agreements constitute valid and perfected first priority Liens in and upon the Collateral (other than any after-acquired Collateral which due to its nature may require further notices, registrations, filings or other steps be taken), subject only to the Permitted Liens; provided, however, that no Credit Party shall be required to take any action to (i) perfect any Lien granted to Lender hereunder on any motor vehicles or (ii) comply with the *Assignment of Claims Act*, 31 USC § 3727 or the *Financial Administration Act* (Canada) or any like applicable provincial statute, with respect to Accounts owing by any federal or provincial Governmental Authority. Such Credit Party has good and marketable fee simple title to the Real Property, valid leasehold interests in all of its leased real property and good, valid and merchantable title to all of its other properties and assets subject to no Liens of any kind, except those granted to Lender and Permitted Liens.

8.5 Tax Returns

- (a) Each Credit Party and Red Ash has filed, or caused to be filed, in a timely manner all Federal, State and Provincial and Australian income tax returns, reports and declarations which are required by law to be filed by it. All information in such tax returns, reports and declarations is complete and accurate in all material respects. Each Credit Party and Red Ash have paid or caused to be paid or made provision for the payment of all taxes due and payable to Lender's satisfaction in its reasonable credit discretion, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Credit Party and with respect to which adequate reserves have been set aside on its books and no Lien in respect thereof has become enforceable. Adequate provision has been made for the payment of all such accrued and unpaid Federal, State, Provincial, county, municipal, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.
- (b) Australian Operating Company is not a member of a "consolidated group" or a "MEC group" as those terms are defined for purposes of the *Australian Income Tax Assessment Act* (1997).

8.6 Litigation

Except as set forth in the Information Certificate, there is no present investigation by any Governmental Authority pending, or to the best of any Credit Party's knowledge

threatened, against or affecting any Credit Party or Red Ash, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of any Credit Party's knowledge threatened, against such Credit Party or Red Ash or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against such Credit Party or Red Ash, would be reasonably likely to result in a Material Adverse Effect.

8.7 Approvals

Each Credit Party and Red Ash is in compliance with all applicable licenses, permits, approvals and orders of any foreign, Federal, State or local Governmental Authority, except for any such non-compliance which would not reasonably be expected to have a Material Adverse Effect.

8.8 Environmental Compliance

Except as would not reasonably be expected to have a Material Adverse Effect:

- (a) No Credit Party nor any Subsidiary has generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law or any license, permit, certificate, approval or similar authorization thereunder and the operations of any Credit Party and each Subsidiary complies in all respects with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.
- (b) There has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any Governmental Authority or any other person nor is any pending or to the best of any Credit Party's knowledge threatened, with respect to any non-compliance with or violation of the requirements of any Environmental Law by any Credit Party or any Subsidiary or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects such Credit Party, any Subsidiary or their respective businesses, operations or assets or any properties at which such Credit Party or any Subsidiary has transported, stored or disposed of any Hazardous Materials.
- (c) No Credit Party nor any Subsidiary has any liability (contingent or otherwise) in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.
- (d) Each Credit Party and its Subsidiaries has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with the operations of such Credit Party or any Subsidiary, as applicable, under

any Environmental Law and all of such licenses, permits, certificates, approvals or similar authorizations are valid and in full force and effect.

8.9 Employee Benefits

- (a) Except as would not reasonably be expected to have a Material Adverse Effect, (i) each Plan is in compliance with the applicable provisions of ERISA, the Code and other federal or state law, (ii) each Plan which is intended to qualify under Section 401(a) of the Code has received a favourable determination letter from the Internal Revenue Service and to the best of each Credit Party's knowledge, nothing has occurred which would cause the loss of such qualification and (iii) each Credit Party and its ERISA Affiliates have made all required contributions to any Plan and Multiemployer Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.
- (b) Except as would not reasonably be expected to have a Material Adverse Effect, (i) there are no pending or to the best of any Credit Party's knowledge, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan and (ii) there has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan.
- (c) Except as would not reasonably be expected to have a Material Adverse Effect, (i) no ERISA Event has occurred or is reasonably expected to occur; (ii) with respect to a Plan subject to Title IV of ERISA, the current value of each Plan's assets are not less than such Plan's liabilities (such assets and liabilities determined in accordance with the assumptions used for funding such Plan pursuant to Section 412 of the Code); (iii) each Credit Party and its ERISA Affiliates have not incurred and do not reasonably expect to incur, any liability under Title IV of ERISA with respect to any Plan or Multiemployer Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) each Credit Party and its ERISA Affiliates have not incurred and do not reasonably expect to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) each Credit Party and its ERISA Affiliates have not engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.
- (d) Except as would not reasonably be expected to have a Material Adverse Effect, with respect to any Canadian Pension Plan, if and to the extent that any such Canadian Pension Plan exists or has not been terminated, (i) the Canadian Pension Plans are duly registered under all applicable Federal and Provincial pension benefits legislation, (ii) all obligations of any Canadian Operating Company (including fiduciary, funding, investment and administration obligations) required to be performed in connection with the Canadian Pension Plans or the funding agreements therefor have been performed in a timely fashion and there are no

outstanding disputes concerning the assets held pursuant to any such funding agreement, (iii) all contributions or premiums required to be made by any Canadian Operating Company to the Canadian Pension Plans have been made in a timely fashion in accordance with the terms of the Canadian Pension Plans and Applicable Laws and regulations, (iv) all employee contributions to the Canadian Pension Plans required to be made by way of authorized payroll deduction have been properly withheld by any Canadian Operating Company and fully paid into the Canadian Pension Plans in a timely fashion, (v) all reports and disclosures relating to the Canadian Pension Plans required by any Applicable Laws or regulations have been filed or distributed in a timely fashion, (vi) there have been no improper withdrawals, or applications of, the assets of any of the Pension Plans, (vii) no amount is owing by any of the Canadian Pension Plans under the *Income Tax Act* (Canada) or any provincial taxation statute, (viii) the Canadian Pension Plans are fully funded both on an ongoing basis and on a solvency basis (using actuarial assumptions and methods which are consistent with the valuations last filed with the applicable governmental authorities and which are consistent with generally accepted actuarial principles), and (ix) to the best of the knowledge of each Credit Party none of the Canadian Pension Plans is the subject of an investigation, any other proceeding, an action or a claim and there exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such proceeding, action or claim.

8.10 Bank Accounts

All of the deposit accounts, investment accounts or other accounts in the name of or used by such Credit Party maintained at any bank or other financial institution are set forth in the Information Certificate, subject to the right of such Credit Party to establish new accounts in accordance with the provisions hereof.

8.11 Intellectual Property

Each Credit Party owns or licenses or otherwise has the right to use all Intellectual Property necessary for the operation of its business as presently conducted or proposed to be conducted. As of the date hereof, each Credit Party does not have any Intellectual Property registered, or subject to pending applications, in the United States Patent and Trademark Office, the Canadian Intellectual Property Office or any similar office or agency in the United States, Canada or Australia, any State or Province thereof, any political subdivision thereof, other than those described in the Information Certificate hereto and has not granted any licenses with respect thereto other than as set forth in the Information Certificate. No event has occurred which permits or would permit after notice or passage of time or both, the revocation, suspension or termination of any material right with respect to such Intellectual Property. To the best of any Credit Party's knowledge, no slogan or other advertising device, product, process, method, substance or other Intellectual Property or goods bearing or using any Intellectual Property presently contemplated to be sold by or employed by such Credit Party infringes any patent, trademark, servicemark, tradename, copyright, license or other Intellectual Property owned by any other Person presently and no claim or litigation is pending or threatened

against or affecting such Credit Party contesting its right to sell or use any such Intellectual Property, except, in each case, as would not reasonably be expected to have a Material Adverse Effect. The Information Certificate sets forth all of the agreements or other arrangements of each Credit Party pursuant to which such Credit Party has a license or other right to use any trademarks, logos, designs, representations or other Intellectual Property owned by another person as in effect on the date hereof other than off the shelf/“*shrink wrap*”/software/programs that are used for office and administrative purposes the dates of the expiration of such agreements or other arrangements of such Credit Party as in effect on the date hereof (collectively, together with such agreements or other arrangements as may be entered into by any Credit Party after the date hereof, collectively, the “**License Agreements**” and individually, a “**License Agreement**”). No trademark, servicemark or other Intellectual Property at any time used by such Credit Party which is owned by another person, or owned by such Credit Party subject to any Lien in favour of any person other than Lender, is affixed to any Eligible Inventory, except to the extent permitted under the term of the License Agreements listed on the Information Certificate.

8.12 Subsidiaries; Affiliates; Capitalization; Solvency

- (a) No Credit Party or Red Ash have any direct or indirect Subsidiaries or Affiliates and is not engaged in any joint venture or partnership except as set forth in the Information Certificate, subject to the right of such Credit Party or Red Ash to form or acquire Subsidiaries in accordance herewith.
- (b) Each Credit Party and Red Ash are the record, legal and beneficial owner of all of the issued and outstanding shares of Capital Stock of each of the Subsidiaries listed on the Information Certificate as being owned by such Credit Party and Red Ash and there are no proxies, irrevocable or otherwise, with respect to such shares and no equity securities of any of the Subsidiaries are or may become required to be issued by reason of any options, warrants, rights to subscribe to, calls or commitments of any kind or nature and there are no contracts, commitments, understandings or arrangements by which any Subsidiary is or may become bound to issue additional shares of its Capital Stock or securities convertible into or exchangeable for such shares.
- (c) The issued and outstanding shares of Capital Stock of each Credit Party are directly, legally and beneficially owned and held by the persons indicated in the Information Certificate, and in each case all of such shares have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind, except Permitted Liens.
- (d) Each of Credit Parties are Solvent and will continue to be Solvent after the creation of the Obligations, the Liens of Lender and the other transaction contemplated hereunder.

8.13 Labor Disputes

- (a) Set forth on the Information Certificate is a list (including dates of termination) of all collective bargaining or similar agreements between or applicable to each Credit Party and any union, labour organization or other bargaining agent in respect of the employees of such Credit Party on the date hereof.
- (b) There is (i) no significant unfair labour practice complaint pending against any Credit Party or, to the best of such Credit Party's knowledge, threatened against it, before any labor relations board, and no significant grievance or significant arbitration proceeding arising out of or under any collective bargaining agreement is pending on the date hereof against such Credit Party or, to best of any Credit Party's knowledge, threatened against it, and (ii) no significant strike, labour dispute, slowdown or stoppage is pending against any Credit Party or, to the best of any Credit Party's knowledge, threatened against any Credit Party, except, in each case of clauses (i) and (ii) above, as would not reasonably be expected to have a Material Adverse Effect.

8.14 Material Contracts

The Information Certificate sets forth all Material Contracts to which any Credit Party is a party or is bound as of the date hereof. Borrowers have delivered true, correct and complete copies of such Material Contracts to Lender on or before the date hereof. No Credit Party is in breach of or in default under any Material Contract and has not received any notice of the intention of any other party thereto to terminate any Material Contract, the breach, default or termination of which could reasonably be expected to have a Material Adverse Effect.

8.15 Payable Practices

No Credit Party has made any material change in the historical accounts payable practices from those in effect immediately prior to the date hereof.

8.16 Loan Parties

None of the Loan Parties nor Royal Scot Floor Covering Dist. LLC conducts any active business operations and has no assets other than the Capital Stock of a Credit Party and have no actual or contingent liabilities other than the Obligations. None of the Canadian Operating Companies or the US Operating Companies hold, manufacture, order, supply, process, distribute, store, receive or ship any goods to or for the AUS Operating Company save and except for the sale of yarn by Strudex LP to the AUS Operating Company.

8.17 Accuracy and Completeness of Information

All information furnished by or on behalf of any Credit Party in writing to Lender in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information

Certificates are true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading.

8.18 Survival of Warranties; Cumulative

All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation hereunder and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which any Credit Party or Red Ash shall now or hereafter give, or cause to be given, to Lender.

8.19 Interrelated Businesses

Borrowers and the other Credit Parties and Red Ash make up a related organization of various entities constituting a single economic and business enterprise so that Borrowers and the other Credit Parties and Red Ash share an identity of interests such that any benefit received by any one of them benefits the others. Borrowers and the other Credit Parties and Red Ash render services to or for the benefit of the other Borrowers and/or the other Credit Parties and Red Ash, as the case may be, purchase or sell and supply goods to or from or for the benefit of the others, make loans, advances and provide other financial accommodations to or for the benefit of the other Borrowers and the other Credit Parties and Red Ash (including *inter alia*, the payment by Borrowers and the other Credit Parties of creditors of the other Borrowers or the other Credit Parties and guarantees by Borrowers and the other Credit Parties of indebtedness of the other Borrowers and the other Credit Parties and provide administrative, marketing, payroll and management services to or for the benefit of the other Borrowers and the other Credit Parties). Borrowers and the other Credit Parties have centralized accounting and legal services, certain common officers and directors and generally do not provide consolidating financial statements to creditors.

8.20 OFAC

No Credit Party or Red Ash or any of its Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC. No Credit Party or Red Ash or any of its Subsidiaries (a) is a Sanctioned Person or a Sanctioned Entity, (b) has its assets located in Sanctioned Entities, or (c) derives revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. No proceeds of any loan made hereunder will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

SECTION 9 - AFFIRMATIVE AND NEGATIVE COVENANTS

9.1 Maintenance of Existence

- (a) Except as expressly permitted pursuant to this Section below, each Credit Party and Red Ash shall at all times (i) preserve, renew and keep in full, force and effect its corporate, limited liability company, unlimited liability company, general partnership or limited partnership existence, as applicable, and rights and franchises with respect thereto and (ii) maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted (except where the failure to do so would not reasonably be expected to have a Material Adverse Effect), and (iii) shall not engage in any business, enter into any transaction, use any securities or take any other action or permit any of its Subsidiaries to do any of the foregoing, that would cause it or any of its Subsidiaries to become subject to the registration requirements of the *Investment Company Act of 1940*, as amended, by virtue of being an “*investment company*” or a company “*controlled*” by an “*investment company*” not entitled to an exemption within the meaning of such Act. No Credit Party or Red Ash shall conduct, deal in or engage in or permit any Affiliate or agent of any Credit Party or Red Ash within its control to conduct, deal in or engage in any of the following activities (i) conduct any business or engage in any transaction or dealing with any person blocked pursuant to Executive Order No. 13224 (“**Blocked Person**”), including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person; (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224; or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or the *USA Patriot Act*. Each applicable Credit Party or Red Ash shall deliver to the Lender any certification or other evidence requested from time to time by the Lender, in its sole, confirming compliance with this Section.
- (b) No Credit Party or Red Ash shall change its name unless each of the following conditions is satisfied: (i) Lender shall have received not less than 30 days’ prior written notice from such Credit Party or Red Ash of such proposed change in its corporate, limited liability company, unlimited liability company, general partnership or limited partnership name, as applicable, which notice shall accurately set forth the new name; and (ii) Lender shall have received a copy of the amendment to the certificate of incorporation or formation, as applicable, of such Credit Party or Red Ash providing for the name change certified by the Secretary of State or other applicable Governmental Authority of the jurisdiction of incorporation or organization of such Credit Party or Red Ash as soon as it is available.
- (c) No Credit Party or Red Ash shall change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall

not acquire one) unless Lender shall have received not less than 30 days' prior written notice from such Credit Party or Red Ash of such proposed change, which notice shall set forth such information with respect thereto as Lender may require and Lender shall have received such agreements as Lender may reasonably require in connection therewith. No Credit Party or Red Ash shall change its type of organization, jurisdiction of organization or other legal structure without the prior written consent of the Lender, which shall not be unreasonably withheld.

9.2 New Collateral Locations

A Credit Party may only open any new location within the United States of America, Canada or Australia provided such Credit Party (a) gives Lender no less than 30 days' prior written notice from Borrower Agent of the intended opening of any such new location, and (b) executes and delivers, or causes to be executed and delivered, to Lender such access agreements and other agreements, documents, and instruments as Lender may deem necessary or desirable to protect its interests in the Collateral at such location, including PPSA and other financing statements and such other evidence as Lender may require of the perfection of Lender's first (subject to Permitted Liens) priority Liens where required by Lender.

9.3 Compliance with Laws, Regulations, Etc.

- (a) Each Credit Party and Red Ash shall, and shall cause any Subsidiary to, at all times, comply in all respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any foreign, Federal, State, Provincial or local Governmental Authority, including ERISA, the Code, the *Occupational Safety and Health Act of 1970*, as amended, the *Fair Labor Standards Act of 1938*, as amended, all Australian Laws, all applicable securities laws, and all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws, except in each case for such noncompliance which would not reasonably be expected to have a Material Adverse Effect and not permit any Loans or the proceeds of any Loan under this Agreement to be used for any purpose that would cause such Loans to be margin loans under the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System of the United States.
- (b) The Credit Parties shall establish and maintain, at its expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by employees or agents who are familiar with the requirements of the Environmental Laws. Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by Borrower Agent to Lender. Credit Parties shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Lender on such response.

- (c) Borrower Agent shall give written notice to Lender immediately upon any Credit Party's receipt of any notice of, or such Credit Party's otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material which would reasonably be expected to have a Material Adverse Effect, or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any applicable Environmental Law by such Credit Party, or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material, or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials, or (D) any other environmental, health or safety matter, which affects the Credit Parties or its business, operations or assets or any properties at which it transported, stored or disposed of any Hazardous Materials, other than in the ordinary course of business and other than as permitted under any applicable Environmental Law, in each case which would reasonably be expected to have a Material Adverse Effect.
- (d) Promptly upon the written request of Lender, which request shall be based upon Lender's reasonable belief that there is non-compliance, or any condition which requires any action by or on behalf of any Credit Party in order to avoid any non-compliance, with any Environmental Law (except in each case for such non-compliance which would not reasonably be expected to have a Material Adverse Effect), such Credit Party shall, at Lender's request and Borrowers' expense: (i) cause an independent environmental engineer acceptable to Lender to conduct such tests of the site where such Credit Party's non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Lender a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof and (ii) provide to Lender a supplemental report of such engineer whenever the scope of such non-compliance, or such Credit Party's response thereto or the estimated costs thereof, shall change in any respect.
- (e) Each Credit Party hereby indemnifies and holds harmless Lender, its directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including attorneys' fees and legal expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of such Credit Party and the preparation and implementation of any closure, remedial or other required plans except to the extent that any such loss, claim, damage, liability, cost or expenses arises out of the gross negligence or wilful misconduct of the party being indemnified (as determined by a final non-appealable judgment of a court of competent jurisdiction). All representations, warranties, covenants and indemnifications in

this Section 9.3 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.4 Payment of Taxes and Claims

Each Credit Party and Red Ash shall, and shall cause any Subsidiary to, duly pay and discharge all Priority Payables and all mortgage payments on the Australian Real Property, and all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Credit Party and Red Ash or such Subsidiary, as the case may be, and, except where failure to do so could not reasonably be expected to result in liability to such Credit Party and Red Ash in excess of \$50,000 in the aggregate, with respect to which no Liens have become enforceable and adequate reserves have been set aside on its books. Borrowers shall be liable for any Indemnified Tax or penalties imposed on Lender as a result of the financing arrangements provided for herein and Borrowers hereby indemnify and hold Lender harmless with respect to the foregoing, and to repay to Lender on demand the amount thereof, and until paid by Borrowers such amount shall be added and deemed part of the Loans. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.5 Insurance

Each Credit Party shall, and shall cause any Subsidiary to, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral and the Australian Real Property against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be reasonably satisfactory to Lender as to form, amount and insurer. Borrower Agent shall furnish certificates, including flood certificates, policies or endorsements to Lender as Lender shall require as proof of such insurance, and, if it fails to do so, Lender is authorized, but not required, to obtain such insurance at the expense of Borrowers. All policies shall provide that they are assignable to Lender and provide for at least 30 days' prior written notice to Lender of any cancellation or reduction of coverage and that Lender may act as attorney for such Credit Party in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and cancelling such insurance. Each Credit Party shall cause Lender to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and such Credit Party shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Lender. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Lender as its interests may appear and further specify that Lender shall be paid regardless of any act or omission by any Credit Party or any of its Affiliates. At its option, Lender may apply any insurance proceeds received by Lender at any time to the cost of repairs or replacement of Collateral and/or to payment of the Obligations, whether or not then due, in any order and

in such manner as Lender may determine or hold such proceeds as cash collateral for the Obligations.

9.6 Financial Statements and Other Information

- (a) The Credit Parties shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and their business in accordance with GAAP and Borrower Agent shall furnish or cause to be furnished to Lender with respect to all the Credit Parties (i) within 20 days after the end of each fiscal month, monthly unaudited consolidated and consolidating financial statements of the Credit Parties (including in each case balance sheets, statements of income and loss, statements of cash flow, statements of shareholders' equity and monthly figures with comparisons to monthly plan and prior year month and year to date figures with comparisons to year to date plan and year to date prior year), all in reasonable detail, fairly presenting the financial position and the results of operations in accordance with GAAP of such Credit Parties as of the end of and through such fiscal month; and (ii) within 120 days after the end of each fiscal year, audited consolidated and consolidating financial statements of the Credit Parties in accordance with GAAP (including in each case balance sheets, statements of income and loss, statements of changes in financial position and statements of shareholders' equity), and the accompanying notes thereto, as applicable, all in reasonable detail, fairly presenting the financial position and the results of the operations in accordance with GAAP of such Credit Parties as of the end of and for such fiscal year, together with the unqualified opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by Borrowers and acceptable to Lender, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of such Credit Parties as of the end of and for the fiscal year then ended, as applicable.
- (b) Borrower Agent shall promptly notify Lender in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or the Australian Real Property which would be reasonably likely to result in any Material Adverse Effect, (ii) any Material Contract of such Credit Party being terminated or amended in any material respect or any new Material Contract entered into (in which event such Credit Party shall provide Lender with a copy of such Material Contract), (iii) any order, judgment or decree in excess of \$50,000 shall have been entered against such Credit Party or any of its properties or assets, (iv) any notification of violation of laws or regulations that are material to the operations of any Credit Party received by such Credit Party, (v) any ERISA Event which could reasonably be expected to result in liability of such Credit Party in an aggregate amount in excess of \$50,000, (vi) any Canadian Pension Plan Event which could reasonably be expected to result in liability of such Credit Party in an aggregate amount in excess of \$50,000, (vii) any vendor of such Credit Party that is permitted, pursuant to the terms of its agreement with such

Credit Party, to offset any amounts in excess of \$50,000 owing to such vendor against any Receivables, and (viii) the occurrence of any Default or Event of Default.

- (c) Each Credit Party shall promptly after the sending or filing thereof furnish or cause to be furnished to Lender copies of all reports which such Credit Party sends to its stockholders generally and copies of all reports and registration statements which such Credit Party files with any insurer or securities and exchange commission, any national securities exchange or any national association of securities dealers or any similar applicable authority.
- (d) Within 30 days prior to the first day of each fiscal year, Borrower Agent shall furnish or cause to be furnished to Lender (i) projected monthly balance sheets, income statements and statements of cash flows of the Credit Parties and their Subsidiaries and Availability and Term Loan Availability of the Operating Companies for such fiscal year (on a consolidated and consolidating basis), in each case with the results and assumptions set forth in all of such projections in form and substance satisfactory to Lender, together with supporting documentation, in form and substance satisfactory to Lender and (ii) such other budgets, forecasts, projections and other information respecting the Collateral and the business of the Credit Parties, as Lender may, from time to time, reasonably request. Lender is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of any Credit Party to any court or other Governmental Authority or to any participant or assignee or prospective participant or assignee. Each Credit Party hereby irrevocably authorizes and directs all accountants or auditors to deliver to Lender, at Borrowers' expense, copies of the financial statements of the Credit Parties and any reports or management letters prepared by such accountants or auditors on behalf of the Credit Parties and to disclose to Lender such information as they may have regarding the business of the Credit Parties. Any documents, schedules, invoices or other papers delivered to Lender may be destroyed or otherwise disposed of by Lender one (1) year after the same are delivered to Lender, except as otherwise designated or directed by Borrower Agent to Lender in writing.
- (e) Within 10 days after the end of each month, Borrower Agent shall provide to Lender a compliance certificate in form satisfactory to Lender substantially in the form attached hereto as Schedule 9.6 certifying compliance with the financial and other covenants set forth herein, including specifically confirming by an officer of the Borrower, in his/her capacity as an officer of the Borrower and not in his/her personal capacity, that all applicable inquiries, investigations and searches have been conducted and that there are no purchase money security interests against any of the AUS Operating Company's Inventory or Equipment, and providing a list of all aged payables to all suppliers older than 30 days.

9.7 Sale of Assets, Consolidation, Amalgamation, Merger, Dissolution, Etc.

The Credit Parties, Red Ash and Pinnacle Capital Resources ULC but not their Affiliates for purposes of this Section 9.7, shall not, directly or indirectly, without Lender's prior written consent:

- (a) amalgamate, merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, except for mergers or consolidations of:
 - (i) a wholly-owned Subsidiary of a Credit Party with such Credit Party, provided that such Credit Party shall be the surviving entity, and
 - (ii) a Credit Party with a Credit Party; provided that no Operating Company shall merge into or with or consolidate with any other Person other than another Operating Company;
- (b) sell, assign, lease, transfer, abandon or otherwise dispose of any Capital Stock or Indebtedness to any other Person or any of its assets to any other Person, other than:
 - (i) a transfer that would not otherwise trigger a Change of Control hereunder;
 - (ii) sales of Inventory in the ordinary course of business,
 - (iii) a sale or refinancing of the Australian Real Property on terms and conditions acceptable to Lender as confirmed by Lender in writing prior to such sale or refinancing which approval (which shall not be unreasonably withheld) or non-approval will be given by Lender within 14 Business Days of Lender's receipt of Credit Parties' written request for approval, and provided Lender is provided with any access/use/standstill agreement it requires in its reasonable credit discretion, the proceeds of which (the "**Australian Sale Proceeds**") the Lender hereby acknowledges and agrees may be payable to Red Ash whether by way of dividends, indebtedness or otherwise,
 - (iv) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business so long as:
 - (1) any proceeds are paid to Lender to permanently repay the Term Loan or are otherwise used in accordance with this Agreement, and
 - (2) such dispositions do not involve Eligible Equipment having an aggregate fair market value in excess of \$50,000 for all such Equipment disposed of by all Credit Parties in any fiscal year,

- (v) so long as the Liens granted to Lender in the Collateral shall remain in full force and effect and perfected, the sale, assignment, lease, transfer, abandonment or disposition of any assets to an Operating Company; provided, that:
- (1) Lender shall have received not less than 10 Business Days (or such shorter period of time acceptable to Lender) prior written notice of such sale, assignment, lease, transfer, abandonment or disposition, which notice shall identify the assets subject to such sale, assignment, lease, transfer, abandonment or disposition and shall specify the Operating Company to whom such assets are to be sold, assigned or leased,
 - (2) Lender shall have received, not less than 10 Business Days (or such shorter period of time acceptable to Lender) prior to such sale, assignment, lease, transfer, abandonment or disposition, documentation, in form and substance reasonably satisfactory to Lender, as applicable; and
- (vi) the issuance and sale by such Credit Party of Capital Stock of such Credit Party after the date hereof; provided, that:
- (1) Lender shall have received not less than 10 Business Days' prior written notice of such issuance and sale by such Credit Party, which notice shall specify the parties to whom such Capital Stock is to be sold, the terms of such sale, the total amount which it is anticipated will be realized from the issuance and sale of such Capital Stock and the Net Cash Proceeds which it is anticipated will be received by such Credit Party from such sale,
 - (2) such Credit Party shall not be required to pay any cash dividends or repurchase or redeem such Capital Stock or make any other payments in respect thereof,
 - (3) the terms of such Capital Stock, and the terms and conditions of the purchase and sale thereof, shall not include any terms that include any limitation on the right of any Credit Party to request or receive Revolving Loans or Letter of Credit Accommodations or the right of any Credit Party to amend or modify any of the terms and conditions of this Agreement or any of the other Financing Agreements or otherwise in any way relate to or affect the arrangements of any Credit Party with Lender or are more restrictive or burdensome to any Credit Party than the terms of any Capital Stock in effect on the date hereof, and

- (4) as of the date of such issuance and sale and after giving effect thereto, no Default or Event of Default shall exist or have occurred and be continuing;
- (c) wind up, liquidate or dissolve, other than the Dissolution, and as otherwise permitted in this Section above; or
- (d) agree to do any of the foregoing.

9.8 Liens

The Credit Party shall not, without Lender's prior written consent, create, incur, assume, suffer or permit to exist any Lien of any nature whatsoever on any of its assets or properties, including the Collateral, and Red Ash with respect to its Collateral, except:

- (a) the Liens of Lender which upon the satisfaction of the following conditions to Lender's satisfaction, the Lender shall release its Liens against the Waterloo Property:
 - (i) there is average Excess Availability (net of the aggregate amount of all due but unpaid tax obligations, trade payables and other obligations of the Operating Companies which are more than 30 days past due), determined on a trailing 3-month basis of not less than \$7,000,000 and of not less than \$6,000,000 (after giving effect to any payment made to eliminate Availability in respect of the Waterloo Property) on and as at the date of the proposed release;
 - (ii) no Default or Event of Default shall have occurred;
 - (iii) Lender shall have received audited financial statements confirming EBITDA of not less than \$4,800,000 for the Group Members for fiscal 2013;
 - (iv) Availability in respect of the Waterloo Property shall have been indefeasibly and permanently reduced to zero; and
 - (v) the Lender is in receipt of any Collateral Access Agreements and/or non-disturbance/use/standstill agreements it requires (the "**Real Property Release Conditions**");
- (b) Liens securing the Subordinated Secured Debt to the extent such Liens are subject to the Intercreditor Agreement and are junior to Lender's Liens;
- (c) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of Real Property which do not interfere in any material respect with the use of such Real Property or ordinary conduct of the business of such Credit Party or such Subsidiary as presently conducted thereon or materially impair the value of the Real Property which may be subject thereto;

- (d) Liens against the Australian Real Property on terms and conditions acceptable to Lender as confirmed by Lender in writing as contemplated herein;
- (e) Liens on deposits of cash and cash equivalents made to secure permitted Indebtedness in connection with Swap Agreements permitted hereunder;
- (f) the Liens set forth on the Information Certificate or Schedule 9.8 attached hereto;
- (g) Liens in favour of customs and revenues authorities which secure payment of customs duties in connection with the importation of goods; provided such Lien attaches solely to such goods being so imported and in respect of which such duties are owing;
- (h) any interest, Lien or title of a licensor, sublicensor, lessor or sublessor under any license or lease agreement in the property being leased or licensed as permitted hereunder (provided that, in the case of Real Property, either such lessors of Real Property shall have executed and delivered a Collateral Access Agreement, or Lender has otherwise established a Reserve in respect thereof);
- (i) Liens which arise under Article 4 of the UCC on items in collection and documents and proceeds related thereto, as arising in the ordinary course of business;
- (j) Liens arising under contracts to sell goods in the ordinary course of business, including pursuant to Article 2 of the UCC;
- (k) rights of setoff or banker's liens upon deposits of cash in favour of banks or other depository institutions, but not securing any Indebtedness for money borrowed;
- (l) Liens on any Credit Party's or any Subsidiary's insurance policies and the proceeds thereof, in each case, securing solely the financing provided by the issuer of such policy or any such other Person providing such financing, for the premiums with respect to such policies;
- (m) Liens arising from precautionary UCC financing statement filings or like personal property security financing statements regarding operating leases entered into in the ordinary course of business;
- (n) Liens incurred in connection with the extension, renewal or refinancing of the Indebtedness, secured by the Liens described above, provided that:
 - (i) such Indebtedness is not secured by any additional assets;
 - (ii) the amount of such Indebtedness secured by any such Lien is not increased; and
 - (iii) an interest that is a Lien by virtue of the operation of Section 12(3) of the Australian PPSA; and

- (o) Liens incurred in connection with the refinancing of the Australian Real Property provided it is on terms and conditions acceptable to Lender to be confirmed by Lender in writing prior to any such financing in accordance with the provisions hereof and Lender is provided with any Collateral Access Agreements and/or non-disturbance/use/standstill agreements it requires.

9.9 Indebtedness

The Credit Parties shall not, without the prior written consent of Lender, incur, create, assume, become or be liable in any manner with respect to, suffer or permit to exist, any Indebtedness or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the performance, dividends or other obligations of any Person, except:

- (a) the Obligations;
- (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which it is contesting the amount or validity thereof by appropriate proceedings diligently pursued and available to it, and with respect to which adequate reserves have been set aside on its books;
- (c) purchase money Indebtedness (including Capital Leases) of the Operating Companies arising after the date hereof to the extent secured by purchase money security interests in Equipment only (including Capital Leases) not to exceed \$500,000 for all Operating Companies in the aggregate at any time outstanding so long as such security interests do not apply to any property of such Operating Company other than the Equipment so acquired, and the Indebtedness secured thereby does not exceed the cost of the Equipment so acquired, as the case may be;
- (d) guarantees by any Credit Party of the Obligations or any other Indebtedness of any other Credit Party or Subsidiary permitted hereunder;
- (e) Indebtedness of Borrowers and the Operating Companies arising under (i) any Lender Swap Agreement that is not for speculative purposes, and (ii) any Swap Agreement entered into with the consent of Lender; provided, that, such arrangements under this clause (ii) are not for speculative purposes and such Indebtedness is not secured by any Collateral;
- (f) secured Indebtedness of any applicable Credit Party arising after the date hereof to any third person against the Australian Real Property, provided, that, each of the following conditions is satisfied as determined by Lender:
 - (i) such Indebtedness shall be on terms and conditions acceptable to Lender as confirmed by Lender in writing prior to incurring any such Indebtedness in accordance with the provisions hereof;

- (ii) Lender shall have received not less than 10 days' prior written notice of the intention of such Credit Party to incur such Indebtedness, which notice shall set forth in reasonable detail satisfactory to Lender the amount of such Indebtedness, the person or persons to whom such Indebtedness will be owed, the interest rate, the schedule of repayments and maturity date with respect hereto and such other information as Lender may reasonably request with respect thereto and the Lender provides its prior written consent within 14 Business Days of its receipt of such notice, which consent will not be unreasonably withheld;
 - (iii) Lender shall have received true, correct and complete copies of all agreements, documents and instruments evidencing or otherwise related to such Indebtedness and any non-disturbance/use/standstill agreements it may reasonably require in its reasonable credit discretion;
 - (iv) on and before the date of incurring such Indebtedness and after giving effect thereto, no Default or Event of Default shall exist and be continuing;
 - (v) such Credit Party shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such Indebtedness or any agreement, document or instrument related thereto, except, that, such Credit Party may, after prior written notice to Lender, amend, modify, alter or change the terms thereof so as to extend the maturity thereof, or defer the timing of any payments in respect thereof, or to forgive or cancel any portion of such Indebtedness (other than pursuant to payments thereof), or to reduce the interest rate or any fees in connection therewith, or (B) redeem, retire, defease, purchase or otherwise acquire such Indebtedness (except pursuant to regularly scheduled payments permitted herein), or set aside or otherwise deposit or invest any sums for such purpose;
 - (vi) such Credit Party shall furnish to Lender all notices or demands in connection with such Indebtedness either received by such Credit Party or on its behalf promptly after the receipt thereof, or sent by such Credit Party or on its behalf concurrently with the sending thereof, as the case may be; and
- (g) unsecured Indebtedness relating to advances of Revolving Loan Proceeds of one Operating Company to another;
 - (h) unsecured contingent obligations arising by endorsement of instruments for deposit or collection in the ordinary course of any Operating Companies' business;
 - (i) unsecured Indebtedness in respect of Cash Management Products, so long as such Indebtedness is incurred in the ordinary course of any Operating Companies' business;

- (j) Indebtedness constituting management fees and other operating costs as levied/accrued from time to time by Red Ash or any of its affiliates up to a maximum amount of \$1,000,000 per fiscal year of Borrowers provided such amount is not paid other than in accordance with the provisions hereof;
- (k) Indebtedness constituting investments permitted pursuant to the provisions hereof;
- (l)
 - (i) the existing Subordinated Secured Debt, in an aggregate outstanding principal amount not in excess of \$108,082,703.12 as at June 30, 2013 (plus interest, fees, costs and expenses); and
 - (ii) other future subordinated debt, on terms and conditions acceptable to Lender, except as may be provided for in the Intercreditor Agreement or any subordination agreement related thereto, no Credit Party may make any payment on account of the Subordinated Secured Debt or other subordinated debt in contravention of the provisions hereof or thereof until all of the Obligations have been paid in full and all commitments to lend under this Agreement have been terminated; provided further, that, except as set forth, with respect to the Subordinated Secured Debt, in the Intercreditor Agreement, and with respect to other subordinated debt permitted in this clause above, in the applicable intercreditor agreement or subordination agreement related thereto:
 - (1) no Credit Party or Red Ash shall, directly or indirectly:
 - (A) amend, modify, alter or change the terms of the Subordinated Secured Debt or other subordinated debt or any agreement, document or instrument related thereto, except, that, each Credit Party or Red Ash may, after prior written notice to Lender, amend, modify, alter or change the terms thereof so as to extend the maturity thereof, or defer the timing of any payments in respect thereof, or to forgive or cancel any portion of the Subordinated Secured Debt or other subordinated debt (other than pursuant to payments thereof), or to reduce the interest rate or any fees in connection therewith; or
 - (B) redeem, retire, defease, purchase or otherwise acquire the Subordinated Secured Debt (except pursuant to regularly scheduled payments permitted herein) or other subordinated debt, or set aside or otherwise deposit or invest any sums for such purpose; and
 - (2) each Credit Party or Red Ash shall furnish to Lender all notices or demands in connection with the Subordinated Secured Debt or other subordinated debt either received by such Credit Party or Red Ash or on its behalf promptly after the receipt thereof, or sent

by such Credit Party or Red Ash or on its behalf concurrently with the sending thereof, as the case may be;

- (m) the Indebtedness set forth on the Information Certificate and Schedule 10.9 attached hereto; provided, such Credit Party may:
 - (i) reimburse Red Ash for its reasonable actual recorded out-of-pocket expenses incurred in connection with this financing transaction up to a maximum amount of \$200,000; and
 - (ii) reimburse Red Ash for expenses (but not management fees) incurred in respect of the management of the Credit Parties up to a maximum amount of \$200,000 per fiscal year of Borrowers commencing with fiscal year of 2014;
 - (1) such Credit Party or Red Ash shall not, directly or indirectly:
 - (A) amend, modify, alter or change the terms of such Indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof except, that, such Credit Party or Red Ash may, after prior written notice to Lender, amend, modify, alter or change the terms thereof so as to extend the maturity thereof, or defer the timing of any payments in respect thereof, or to forgive or cancel any portion of such Indebtedness (other than pursuant to payments thereof), or to reduce the interest rate or any fees in connection therewith; or
 - (B) redeem, retire, defease, purchase or otherwise acquire such Indebtedness, or set aside or otherwise deposit or invest any sums for such purpose; and
 - (2) such Credit Party or Red Ash shall furnish to Lender all notices or demands in connection with such Indebtedness either received by such Credit Party or Red Ash or on its behalf, promptly after the receipt thereof, or sent by such Credit Party or Red Ash or on its behalf, concurrently with the sending thereof, as the case may be;
- (n) subject to the provisions hereof, Indebtedness owing to Red Ash from the proceeds of any refinancing of the Australian Real Property on terms and conditions acceptable to Lender as confirmed by Lender in writing prior to any such refinancing in accordance with the provisions hereof;
- (o) unsecured Indebtedness owing to an Operating Company other than AUS Operating Company to another Operating Company arising in connection with the purchase of inventory or with the performance of any administrative function, in each case, in the ordinary course of and pursuant to the reasonable requirements of such business and upon fair and reasonable terms no less favourable to such

Operating Company than such Operating Company would obtain in a comparable arm's length transaction with an unaffiliated person; and

- (p) refinancings of Indebtedness described above so long as (i) the principal amount thereof is not increased, (ii) the fees in connection therewith are not increased, (iii) the interest rates in connection therewith are not increased (iv) the maturity is not shortened, (v) no additional collateral therefor shall be granted, (vi) if the Indebtedness being refinanced is subject to a subordination agreement or intercreditor agreement, the replacement Indebtedness shall be subject to a subordination agreement or intercreditor agreement, as applicable, with the same terms and (vii) such refinancing shall otherwise constitute an amendment to the terms of such Indebtedness permitted and in accordance with the terms of this Agreement and any subordination agreement or intercreditor agreement to which such Indebtedness is subject.

9.10 Loans, Investments, Guarantees, Etc.

The Credit Parties shall not, without Lender's prior written consent, directly or indirectly, make, or suffer or permit to exist, any loans or advance money or property to any person, or any investment in (by capital contribution, dividend or otherwise) or purchase or repurchase the Capital Stock or Indebtedness or all or a substantial part of the assets or property of any person, or form or acquire any Subsidiaries, or agree to do any of the foregoing, except:

- (a) advances to an officer or employee for salary, travel expenses, commissions and similar items in the ordinary course of business up to an aggregate amount not to exceed \$100,000;
- (b) the endorsement of instruments for collection or deposit in the ordinary course of business;
- (c) investments in cash or Cash Equivalents, provided, that, (i) no Revolving Loans are then outstanding, and (ii) the terms and conditions of this Section shall have been satisfied with respect to the deposit account or investment account in which such cash or Cash Equivalents are held, and otherwise with Lender's prior written consent; provided, further that, any Credit Party and/or Subsidiary may have and maintain (i) deposits in deposit/operating accounts subject to blocked accounts agreements contemplated herein, and/or (ii) the other accounts permitted pursuant hereto;
- (d) (i) the existing equity investments of any Credit Party as of the date hereof in its Subsidiaries, provided, that, such Credit Party shall have no obligation to make any other investment in, or loans to, or other payments in respect of, any such Subsidiaries, and (ii) the transfer and/or redemption/repurchase of Capital Stock contemplated in Section 9.7(b) above;
- (e) Loans by one Operating Company to another in each case with the proceeds of Revolving Loans;

- (f) stock or obligations issued to any Credit Party by any Person (or the representative of such Person) in respect of Indebtedness of such Person owing to such Credit Party in connection with the insolvency, bankruptcy, receivership or reorganization of such Person or a composition or readjustment of the debts of such Person; provided, that, the original of any such stock or instrument evidencing such obligations shall be promptly delivered to Lender, upon Lender's request, together with such stock power, assignment or endorsement by such Credit Party as Lender may request;
- (g) investments consisting of Swap Agreements permitted hereunder;
- (h) the extension of commercial trade credit in connection with the sale of Inventory in the ordinary course of business;
- (i) obligations of account debtors to such Credit Party arising from Accounts which are past due evidenced by a promissory note made by such account debtor payable to such Credit Party; provided, that, promptly upon the receipt of the original of any such promissory note by such Credit Party, such promissory note shall be endorsed to the order of Lender by such Credit Party and promptly delivered to Lender as so endorsed;
- (j) loans to, or investments in, a Credit Party permitted hereunder (including the intercompany loans made by Red Ash in the Credit Parties and by the CAD Borrowers to Kraus Properties LP and Kraus Brands LP as contemplated in Section 6.6 of this Agreement and the Intercreditor Agreement) and the repayment of the Subordinated Secured Debt provided any such repayment is solely made in accordance with the provisions hereof and the Intercreditor Agreement;
- (k) the loans, advances, guarantees and investments set forth on Schedule 9.10 hereto or the Information Certificate; provided, that, as to such loans, advances and guarantees:
 - (i) such Credit Party shall not, directly or indirectly, amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto;
 - (ii) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose;
 - (iii) such Credit Party shall furnish to Lender all notices or demands in connection with such loans and advances or guarantees or other indebtedness subject to such guarantees either received by such Credit Party or on its behalf, promptly after the receipt thereof, or sent by such Credit Party or on its behalf, concurrently with the sending thereof, as the case may be; and

- (iv) payments to counterparties under or in connection with any Swap Agreement;
- (l) the endorsement of instruments for collection or deposit in the ordinary course of business;
- (m) other investments (not otherwise permitted by above) not exceeding \$50,000 in the aggregate in any fiscal year of the Credit Parties and their Subsidiaries as long as no Default or Event of Default is in existence prior to the making thereof or would otherwise result therefrom; provided that any such loans shall be evidenced by notes to be endorsed and delivered to Lender and any other instruments or securities evidencing any of the foregoing shall be endorsed and delivered to Lender.

9.11 Dividends, Redemptions and Distributions

No Credit Party shall, without the prior written consent of the Lender, directly or indirectly, declare or pay any dividends on account of any shares of any class of Capital Stock of such Credit Party now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of Capital Stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common shares or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or make any other Distribution or agree to do any of the foregoing, except:

- (a) in any case (i) Capital Stock payable solely in additional shares of or warrants to purchase common stock, and (ii) stock splits or reclassifications of stock into additional or other shares of common stock;
- (b) distributions described in clauses (ii);
- (c) any Subsidiary may declare and pay dividends or make other Distributions in respect of its Capital Stock to a Credit Party;
- (d) subject to the provisions hereof, payments by the AUS Operating Company to Red Ash of the proceeds of any sale or refinancing of the Australian Real Property; and
- (e) payments on account of expenses relating to the management of Credit Parties by Red Ash as contemplated and permitted in Section 9.9(m)(ii) of this Agreement.

9.12 Transactions with Affiliates and Change of Control

No Credit Party or Red Ash shall, without Lender's prior written consent, directly or indirectly:

- (a) purchase, acquire or lease any Collateral from, or sell, transfer or lease any Collateral to, any other Credit Party or Red Ash or any officer, director, agent or other person affiliated with it (including Royal Scot Floors Dist. LLC or Red Ash at any time or under any circumstances whatsoever), except:
 - (i) in the ordinary course of and pursuant to the reasonable requirements of such Credit Party's business and upon fair and reasonable terms no less favourable to such Credit Party than such Credit Party would obtain in a comparable arm's length transaction with an unaffiliated person, and
 - (ii) as otherwise specifically permitted under this Agreement,
- (b) make any payments of management, consulting or other fees for management or similar services or of any indebtedness owing to any officer, employee, shareholder, director or other Affiliate of any Credit Party or Red Ash except as otherwise specifically permitted under this Agreement,
- (c) permit a Change of Control to occur,
- (d) make any payments of any Indebtedness owing to any officer, employee, shareholder, director or other Affiliate of any Credit Party or Red Ash except with respect to Indebtedness incurred in compliance with this Agreement, or
- (e) make, or suffer or permit to exist, any loans or advance money or property to any other Credit Party or Red Ash, or any investment in (by capital contribution, dividend or otherwise) of any other Credit Party, except with respect to loans, advances or investments specifically permitted pursuant to this Agreement (including the intercompany loans by Red Ash to the Credit Parties or by the CAD Borrower to Kraus Properties LP and Kraus Brands LP as contemplated in Section 6.6 of this Agreement).

9.13 Compliance with ERISA

- (a) Each US Credit Party shall, and shall cause each of its ERISA Affiliates to:
 - (i) except as could not reasonably be expected to have a Material Adverse Effect, maintain each Plan in compliance with the applicable provisions of ERISA, the Code and other Federal and State law; (ii) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; (iii) except as could not reasonably be expected to have a Material Adverse Effect, not terminate any Pension Plan so as to incur any liability to the Pension Benefit Guaranty Corporation; (iv) except as could not reasonably be expected to have a Material Adverse Effect, not allow or suffer to exist any prohibited transaction involving any Plan or any trust created thereunder which would subject such Credit Party or such ERISA Affiliate to a tax or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA; (v) except as could not reasonably be expected to have a Material Adverse Effect, not allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any such Pension Plan; or (vi) except as could not reasonably be expected to have a

Material Adverse Effect, not allow or suffer to exist any occurrence of a Reportable Event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any Plan that is a single employer plan, which termination could result in any liability to the Pension Benefit Guaranty Corporation. Each US Credit Party shall, and shall cause each of its ERISA Affiliates to: (1) make all required contributions to any Plan which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such Plan, provided, however, that a failure to make any such required contributions that in the aggregate are not in excess of \$150,000 shall not result in a breach of this Section 9.13(a)(1); and (2) not engage in a transaction that could reasonably be expected to be subject to Section 4069 or 4212(c) of ERISA.

- (b) Except as would not reasonably be expected to have a Material Adverse Effect, each Credit Party shall and shall cause each of its ERISA Affiliates to cause the Canadian Pension Plan to be administered in accordance with the requirements of the applicable pension plan texts, funding agreements, the *Income Tax Act* (Canada) and applicable provincial pension benefits legislation. Upon Lender's request, each Credit Party shall and shall cause each of its ERISA Affiliates to use its best efforts to deliver to Lender an undertaking of the funding agent for the Canadian Pension Plan stating that the funding agent will notify Lender within 7 days of the failure of such Credit Party or any of its ERISA Affiliates to make any required contribution to the Canadian Pension Plan. Except as would not reasonably be expected to have a Material Adverse Effect, no Credit Party nor any of its ERISA Affiliates shall accept payment of any amount from the Canadian Pension Plan (other than amounts on account of expenses reasonably incurred in connection with the operations of such Canadian Pension Plan) without the prior written consent of Lender. Without the prior written consent of Lender, no Credit Party nor any of its ERISA Affiliates shall terminate, or cause to be terminated, the Canadian Pension Plan, if such plan would have a solvency deficiency on termination. Each Credit Party shall and shall cause each of its ERISA Affiliates to promptly provide Lender with any documentation relating to the Canadian Pension Plan as Lender may reasonably request. Each Credit Party shall and shall cause each of its ERISA Affiliates to notify Lender within 30 days of (i) a material increase in the liabilities of the Canadian Pension Plan, (ii) the establishment of a new registered pension plan, and (iii) commencing payment of contributions to the Canadian Pension Plan to which such Credit Party shall or any of its ERISA Affiliates had not previously been contributing.

9.14 Excess Availability [Intentionally Deleted]

9.15 Capital Expenditures

Credit Parties shall not make or incur obligations for Capital Expenditures, on a consolidated basis, during any fiscal year in excess of \$1,000,000.

9.16 Change in Business

No Credit Party shall engage in any business other than the business of such Credit Party on the date hereof and any business reasonably related, ancillary or complimentary to the business in which such Credit Party is engaged on the date hereof.

9.17 Intellectual Property

In the event a Credit Party obtains or applies for any material intellectual property rights or obtains any material licenses with respect thereto, Borrower Agent shall immediately notify Lender thereof and shall provide to Lender copies of all written materials including, but not limited to, applications and licenses with respect to such intellectual property rights. At Lender's request, the applicable Credit Party shall promptly execute and deliver to Lender an intellectual property security agreement granting to Lender a perfected security interest in such intellectual property rights in form and substance satisfactory to Lender.

9.18 Additional Bank Accounts

Credit Parties shall not, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in **Schedule 9.18** hereto, except (a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Lender and subject to such conditions thereto as Lender may establish; and (b) as to any accounts used by Credit Parties to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Lender.

9.19 Applications under the Companies' Creditors Arrangement Act

Each Credit Party and Red Ash acknowledges that its business and financial relationships with Lender are unique from its relationship with any other of its creditors. Each Credit Party and Red Ash agrees that it shall not file any plan of arrangement under the CCAA ("CCAA Plan") which provides for, or would permit directly or indirectly, Lender to be classified with any other creditor for purposes of such CCAA Plan or otherwise.

9.20 EBITDA or FCCR

The Group Members shall maintain a minimum EBITDA calculated on a year-to-date basis for fiscal 2013, and calculated on a trailing twelve-month basis for each of the months of January, February and March for fiscal 2014, of not less than the amount set out below for each applicable period, and starting in January 2014 a Fixed Charge Coverage Ratio, calculated on a trailing 12 month basis, to be tested as at the end of each month, of not less than 1.25:1.00:

	Amount	YTD or TTM Period Ended (as applicable)
1.	\$2,700,000	July 2013

	Amount	YTD or TTM Period Ended (as applicable)
2.	\$3,200,000	August 2013
3.	\$3,400,000	September 2013
4.	\$4,400,000	October 2013
5.	\$5,100,000	November 2013
6.	\$4,800,000	December 2013
7.	\$4,500,000	January 2014
8.	\$4,700,000	February 2014
9.	\$4,300,000	March 2014

For the avoidance of doubt, the Lender and the Borrowers agree that the compliance certificate attached hereto accurately details the method for calculating this financial covenant.

9.21 License Agreements; General Intangibles

- (a) Except as would not reasonably be expected to have a Material Adverse Effect, each Credit Party shall (i) promptly and faithfully observe and perform all of the terms, covenants, conditions and provisions of the License Agreements to be observed and performed by it, at the times set forth therein, if any, (ii) not do, permit, suffer or refrain from doing anything could reasonably be expected to result in a default under or breach of any of the terms of any License Agreement, (iii) not cancel, surrender, modify, amend, waive or release any License Agreement in any respect or any term, provision or right of the licensee thereunder in any respect, or consent to or permit to occur any of the foregoing; except, that, subject to this Section below, such Credit Party may cancel, surrender or release any License Agreement in the ordinary course of the business of such Credit Party; provided, that, such Credit Party shall give Lender not less than 30 days' prior written notice of its intention to so cancel, surrender and release any such License Agreement, (iv) give Lender prompt written notice of any License Agreement entered into by such Credit Party after the date hereof, together with a true, correct and complete copy thereof and such other information with respect thereto as Lender may request, (v) give Lender prompt written notice of any breach of any obligation, or any default, by any party under any License Agreement, and deliver to Lender (promptly upon the receipt thereof by such Credit Party in the case of a notice to such Credit Party, and concurrently with the sending thereof in the case of a notice from such Credit Party) a copy of each notice of default and every other notice and other communication received or delivered by such Credit Party in connection with any License Agreement which relates to the right of such Credit Party to continue to use the property subject to such License Agreement, and (vi) furnish to Lender, promptly upon the request of Lender, such information and evidence as Lender may require from time to time concerning the observance, performance and compliance by such Credit Party or

the other party or parties thereto with the terms, covenants or provisions of any License Agreement.

- (b) Each Credit Party will either exercise any option to renew or extend the term of each material License Agreement in such manner as will cause the term of such material License Agreement to be effectively renewed or extended for the period provided by such option and give prompt written notice thereof to Lender or give Lender prior written notice that such Credit Party does not intend to renew or extend the term of any such material License Agreement or that the term thereof shall otherwise be expiring, not less than 30 days' prior to the date of any such non-renewal or expiration. In the event of the failure of any Credit Party to extend or renew any material License Agreement, Lender shall have, and is hereby granted, the irrevocable right and authority, at its option, to renew or extend the term of such material License Agreement, whether in its own name and behalf, or in the name and behalf of a designee or nominee of Lender or in the name and behalf of such Credit Party, as Lender shall determine at any time that an Event of Default shall exist or have occurred and be continuing. If an Event of Default exists or has occurred which has not been cured to satisfaction of Lender or waived in writing by Lender, Lender may, but shall not be required to, perform any or all of such obligations of any Credit Party under any of the License Agreements, including, but not limited to, the payment of any or all sums due from such Credit Party thereunder. Any sums so paid by Lender shall constitute part of the Obligations.
- (c) No Credit Party shall own or hold any agreement, lease, contractual right, license, approval, privilege, franchise, permit or general intangible (or any agreement evidencing the same) that contains a term or that is subject to a rule of law, statute or regulation that restricts, prohibits, or requires a consent (that has not been obtained) of a Person (other than such Credit Party) to, the creation, attachment or perfection of the Lien granted herein (to the extent any such restriction, prohibition and/or requirement of consent is effective and enforceable under Applicable Law and is not rendered ineffective by Applicable Law (including, without limitation, pursuant to Sections 9-406, 9-407, 9-408 or 9-409 of the UCC)), which when aggregated with other such assets, is material to the business of such Credit Party.

9.22 After Acquired Real Property

If any Credit Party hereafter acquires any real property and such real property with a fair market value in an amount equal to or greater than \$250,000 (or if a Default or Event of Default exists and is continuing, then regardless of the fair market value of such assets), without limiting any other rights of Lender, or duties or obligations of such Credit Party, upon Lender's request, such Credit Party shall execute and deliver to Lender a mortgage, deed of trust or deed to secure debt, as Lender may determine, in form and substance satisfactory to Lender and as to any provisions relating to specific state, provincial or other Applicable Laws satisfactory to Lender and in form appropriate for recording in the real estate records of the jurisdiction in which such real property are located granting to

Lender a first and only Lien on such real property (except for such Liens as such Credit Party would otherwise be permitted to incur hereunder or as otherwise consented to in writing by Lender) and such other agreements, documents and instruments as Lender may require in connection therewith.

9.23 Costs and Expenses

CAD Borrowers shall pay to Lender, within 10 days of demand in writing in reasonable detail, all reasonable costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code, Australian Law and PPSA financing statement filing taxes and fees, documentary taxes, stamping fees, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) costs and expenses and fees for insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees, costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, together with Lender's customary charges and fees with respect thereto; (c) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (d) costs and expenses of preserving and protecting the Collateral; (e) costs and expenses paid or incurred by Lender in connection with obtaining payment of the Obligations, enforcing the Liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (f) all out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by Lender during the course of periodic field examinations of the Collateral and any Credit Party's operations as set forth herein (which shall be conducted on as frequent a basis as the Lender may require), plus a per diem charge at Lender's standard rate (currently \$1,000 per person per day) for Lender's examiners in the field and office; and (g) the reasonable fees and disbursements of counsel (including legal assistants) to Lender in connection with any of the foregoing.

9.24 Salaries

Credit Parties shall not increase any salaries, bonuses, commissions, consultant fees or other compensation to any director, senior executive officer or related party consultant or any member of their families or affiliates, by more than 10% per fiscal year in accordance with Borrowers' annual business plan/projections/budget presented to and approved by Lender without Lender's prior written consent.

9.25 Maintenance of Collateral and Properties

- (a) **Maintenance of Collateral.** The Credit Parties shall keep and maintain the Collateral and all of its other properties necessary or useful in its business in good condition, repair and working order (normal wear and tear excepted) and will from time to time replace or repair any worn, defective or broken parts, although they may discontinue the operation and maintenance of any properties if they believe that such discontinuance is desirable to the conduct of its business and not disadvantageous in any material respect to Lender. The Credit Parties shall take all commercially reasonable steps necessary to protect and maintain its Intellectual Property, the failure of which could or would result in a Material Adverse Effect.
- (b) **Liens.** The Credit Parties and Red Ash shall defend their respective Collateral and the Australian Real Property against all Liens, claims and demands of all third Persons claiming any interest in the Collateral. The Credit Parties and Red Ash shall keep their respective Collateral and the Australian Real Property free and clear of all Liens except Permitted Liens. The Credit Parties shall take all commercially reasonable steps necessary to prosecute any Person infringing its Intellectual Property and to defend itself against any Person accusing it of infringing any Person's Intellectual Property the failure of which could or would result in a material adverse effect.
- (c) **Delivery of Instruments, etc.** Upon request by Lender, Credit Parties and Red Ash shall promptly deliver to Lender a pledge of all instruments, documents and chattel paper constituting Collateral, endorsed or assigned to and in favour of Lender.
- (d) **Restrictions on Nature of Business.** The Credit Parties will not without Lender's prior written consent, engage in any line of business materially different from that presently engaged in by them, and Royal Scot Floor Dist. LLC will not carry on any active business, and shall not incur any indebtedness and/or trade debt or other obligations to any other Person, and the Credit Parties will not purchase, lease or otherwise acquire assets not related to its business.
- (e) **Accounting.** The Credit Parties will not adopt any material change in accounting principles except as required by GAAP, consistently applied and will not change its fiscal year, without Lender's prior written consent.
- (f) **Discounts, etc.** Credit Parties will not grant any discount, credit or allowance to any of its customers or accept any return of goods sold, in either case, out of the ordinary course of business or inconsistent with past practice and all such discounts etc. shall be accurately recorded in its reporting to Lender hereunder. Except in accordance with Credit Parties ordinary course of business and consistent with historical practice and on written notice to Lender, Credit Parties will not at any time modify, amend, subordinate, cancel or terminate any Account.

- (g) **Constating Documents.** The Credit Parties will not, without Lender's prior written consent, amend its constating documents.
- (h) **Disputes.** Borrower Agent shall immediately notify Lender in writing of any dispute or any threatened dispute (whether justifiable or not) with any applicable union or with any supplier or with any of their customers, including any claims by customers of set-off or compensation, warranty claims, guarantee claims, service obligations, any trade dispute or counterclaim against Accounts out of the ordinary course of business and inconsistent with past practice and generally any adverse information (including, relating to a customer's creditworthiness) regarding any of its customers, including any dispute or threatened dispute between any of its customers and any governmental authority or any non-compliance with any Applicable Laws, which could impact the recoverability of any Accounts, with a value in an amount in excess of \$50,000.
- (i) **Australian PPSA policies and steps.** Each Credit Party will promptly take all reasonable steps which are prudent for its business under or in relation to the Australian PPSA including doing anything reasonably requested by the Lender for that purpose. For example, it will:
 - (i) create and implement appropriate policies and systems; and
 - (ii) where appropriate, take reasonable steps to identify security interests in its favour and to perfect and protect them with the highest priority reasonably available.

9.26 **Other General Covenants**

- (a) The Credit Parties shall comply with any and all obligations and duties of confidentiality owing to its customers and suppliers, not infringe on any of its licensed Intellectual Property and shall fulfill and perform all obligations to its customers which could impact the recoverability of any Accounts.
- (b) Borrower Agent shall immediately notify Lender in writing of any investigation, proceeding, complaint, order, record, claim, citation or notice by Canada Revenue Agency or any other Governmental Authority which could or would have a Material Adverse Effect on any Credit Party or Red Ash or any taxes payable or required to be remitted by them.
- (c) The Credit Parties shall, on a best efforts basis, renew all Material Contracts, including its collective bargaining agreement, and all policies of insurance, as or when they are up for renewal prior to the applicable renewal date, the non-renewal of which could or would have a Material Adverse Effect, and shall provide Lender with satisfactory evidence of such renewal prior to the expiry of any such agreement or advise Lender of any cancellation thereof.
- (d) Borrower shall use their best efforts to procure a landlord/bailee/warehouseman/mortgagee waiver and consent at the request of Lender, in form

and substance satisfactory to Lender, in connection with any sale of the Real Property or concerning any new or additional location where any Inventory or the books and records of any Credit Party is or may be located.

- (e) Credit Parties shall not replace, alter or upgrade its accounting or inventory reporting systems or software without the prior written consent of Lender, which consent shall not be unreasonably withheld.
- (f) AUS Operating Company shall not hold more than CAD Dollar Equivalent of \$500,000 of cash on hand for more than 2 Business Days at any time.
- (g) Borrower Agent shall forthwith notify Lender in writing of any matter which it becomes aware of which could be expected to be material to Lender or jeopardize its first, subject to Permitted Liens, secured priority position.

9.27 Loan Parties

Loan Parties shall not conduct any material business operations, other than operations incidental to its ownership of Credit Parties, and incidental to the performance of ministerial activities and the payment of administrative fees and expenses incurred on behalf of, or in connection with the business of, the Credit Parties, and shall have no material assets other than the Capital Stock of Credit Parties. Loan Parties shall not have any material actual or contingent liabilities other than the Obligations.

9.28 Further Assurances

At the request of Lender at any time and from time to time, each Credit Party and Red Ash shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the Liens and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Lender may at any time and from time to time request a certificate from an officer of Borrower Agent representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Lender, Lender may, at Lender's option, cease to make any further Revolving Loans or provide any further Letter of Credit Accommodations until Lender has received such certificate and, in addition, Lender has determined that such conditions are satisfied.

9.29 Foreign Assets Control Regulations, Etc.

None of the requesting or borrowing of the Loans or the requesting or issuance, extension or renewal of any Letter of Credit Accommodations or the use of the proceeds of any thereof will violate the *Trading With the Enemy Act* (50 U.S.C. §1 et seq., as amended) (the "**Trading With the Enemy Act**") or any of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended) (the "**Foreign Assets Control Regulations**") or any enabling legislation or executive

order relating thereto (including, but not limited to (a) *Executive order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism* (66 Fed. Reg. 49079 (2001)) (the “**Executive Order**”) and (b) the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (Public Law 107-56). No Credit Party nor any of its Subsidiaries or other Affiliates is or will become a Sanctioned Entity or Sanctioned Person as described in the Executive Order, the *Trading with the Enemy Act* or the Foreign Assets Control Regulations or engages or will engage in any dealings or transactions, or be otherwise associated, with any such Sanctioned Entity or Sanctioned Person. No part of the proceeds of the Loans made hereunder will be used by any Credit Party or any of their Affiliates, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

SECTION 10 - EVENTS OF DEFAULT AND REMEDIES

10.1 Events of Default

The occurrence or existence of any one or more of the following events are referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”:

- (a) Borrower fails to pay when due any of the Obligations or any Credit Party or Red Ash fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements;
- (b) any representation, warranty or statement of fact made by any Credit Party or Red Ash to Lender in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;
- (c) any Credit Party or Red Ash revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favour of Lender;
- (d) any judgment for the payment of money is rendered against any Credit Party or Red Ash in excess of \$200,000 in any one case or in excess of \$500,000 in the aggregate (in each case, net of any insurance coverage therefore, with respect to which Lender has received evidence reasonably satisfactory to Lender that the insurer has accepted and confirmed such coverage), and shall remain undischarged or unvacated for a period in excess of 30 days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against any Credit Party or Red Ash or any of their respective Collateral;

- (e) any Credit Party or Red Ash (being a natural person or a general partner of any Credit Party which is a partnership) dies or any Credit Party or Red Ash, which is a partnership, limited liability company, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business other than as permitted hereunder;
- (f) any Credit Party or Red Ash makes an assignment for the benefit of creditors, makes or sends notice of a bulk transfer or calls a meeting of its creditors or principal creditors or any Credit Party or Red Ash or Credit Party fail(s) to be Solvent;
- (g) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or a petition, case, application or proceeding under any bankruptcy or insolvency laws of Canada (including the BIA, the CCAA, the *Winding-Up and Restructuring Act* (Canada)) or under any other insolvency, reorganization, arrangement, receivership, readjustment of debt, dissolution, winding-up or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against any Credit Party or Red Ash or all or any part of its properties and such petition or application is not immediately stayed and dismissed within 30 days after the date of its filing or any Credit Party or Red Ash shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;
- (h) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or a petition, case, application or proceeding under any bankruptcy or insolvency laws of Canada (including the BIA and the CCAA, the *Winding-Up and Restructuring Act* (Canada)) or under any insolvency, reorganization, arrangement, receivership, readjustment of debt, dissolution, winding-up or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by any Credit Party or Red Ash or for all or any part of its property including if any of them shall:
 - (i) apply for or consent to the appointment of a receiver, trustee, monitor or liquidator of it or of all or a substantial part of its property and assets;
 - (ii) be unable, or admit in writing its inability, to pay its debts as they mature, or commit any other act of bankruptcy;
 - (iii) make a general assignment for the benefit of creditors;
 - (iv) file a voluntary petition or assignment in bankruptcy or a proposal seeking a reorganization, compromise, moratorium or arrangement with its creditors;
 - (v) take advantage of any insolvency or other similar law pertaining to arrangements, moratoriums, compromises or reorganizations, or admit the

material allegations of a petition or application filed in respect of it in any bankruptcy, reorganization or insolvency proceeding; or

- (vi) take any corporate action for the purpose of effecting any of the foregoing;
- (vii) in respect of the AUS Operating Company:
 - (1) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to its property;
 - (2) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any law or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the Lender);
 - (3) an application or order has been made (and, in the case of an application, it is not stayed, withdrawn or dismissed within 5 Business Days), a resolution is passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of the events described in clauses 10.1(f), (g) and (h);
 - (4) it takes any steps or omits to take any steps or the Australian Securities and Investments Commission takes steps that result in or will result in the corporation being 'deregistered' as that term is defined in the Corporations Act; or
 - (5) any expropriation, attachment, sequestration, distress or execution affects any assets of the corporation;
- (i) any default by any Credit Party under (i) any agreement, document or instrument relating to any Indebtedness for borrowed money owing to any person other than Lender, or any capitalized lease obligations, contingent Indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favour of any person other than Lender, in any case in an amount in excess of \$250,000 or any Lender Swap Agreement, which default continues for more than the applicable cure period, if any, with respect thereto, and the effect of such default is to cause, or permit the holder or holders thereof to cause, the obligations on account of such Indebtedness to become redeemable, liquidated, due or otherwise payable (whether at scheduled maturity, by required prepayment, upon acceleration or otherwise) or (ii) any Material Contract, which default continues for more than the applicable cure period, if any, with respect thereto, if such default would reasonably be expected to have a Material Adverse Effect;
- (j) any bank at which any deposit account of any Credit Party is maintained shall fail to comply with any of the terms of any Deposit Account Control/Blocked Account/Lockbox Agreement to which such bank is a party, and, in each case,

such failure is not cured or such bank or intermediary is not replaced within 30 days after such Credit Party receives notice thereof from Lender;

- (k) any material provision hereof or of any of the other Financing Agreements shall for any reason cease to be valid, binding and enforceable with respect to any party hereto or thereto (other than Lender) in accordance with its terms, or any such party shall challenge the enforceability hereof or thereof, or shall assert in writing, or take any action or fail to take any action based on the assertion that any provision hereof or of any of the other Financing Agreements has ceased to be or is otherwise not valid, binding or enforceable in accordance with its terms, or any Lien with respect to Collateral having a value in excess of \$50,000 provided for herein or in any of the other Financing Agreements shall cease to be a valid and perfected first priority Lien in any of the Collateral purported to be subject thereto (except Permitted Liens);
- (l) an ERISA Event or a Canadian Pension Plan Event shall occur which results in or could reasonably be expected to result in liability of any Credit Party in an aggregate amount in excess of \$50,000;
- (m) any Change of Control of any Credit Party;
- (n) the indictment by any Governmental Authority of any Credit Party or Red Ash of which such Credit Party or Red Ash or Lender receives notice, in either case, as to which there is a reasonable possibility of an adverse determination, in its reasonable credit judgment of Lender, under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings against any Credit Party or Red Ash, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of (i) any of the Collateral having a value in excess of \$50,000 or (ii) any other property of any Credit Party which is necessary or material to the conduct of its business;
- (o) any receiver or receiver manager takes possession of the undertaking or any substantial portion of the property of any Credit Party or Red Ash or if any creditor enforces or gives notice of its intention to enforce or gives prior notice with respect to the exercise of any of its rights under any security granted to it by any Credit Party or Red Ash;
- (p) there shall be a Material Adverse Effect including any material labour disruption or any material breach of any material customer agreement, shall occur after the date hereof;
- (q) there shall be an event of default under any of the other Financing Agreements;
- (r) there shall be a breach or failure to comply with the provisions of any intercreditor agreement or subordination agreement with respect to any Credit Party or Red Ash by any party thereto other than Lender;

- (s) a requirement from the Minister of National Revenue for payment pursuant to Section 224 or any successor section of the *Income Tax Act* (Canada) or Section 317, or any successor section or any other Person in respect of any Credit Party or Red Ash of the *Excise Tax Act* (Canada) or any comparable provision of similar legislation shall have been received by Lender or any other Person in respect of any Credit Party or Red Ash or otherwise issued in respect of any Credit Party or Red Ash;
- (t) any default by any Credit Party under any Swap Agreement;
- (u) without the prior consent in writing of the Lender, the AUS Operating Company reduces its capital (including a purchase of its marketable securities (as defined in the Corporations Act) but excluding a redemption of redeemable marketable securities) or passes a resolution referred to in section 254N(1) of the Corporations Act; or
- (v) other than by any act of the Lender, any Lien created by any Financing Agreement:
 - (i) ceases to have the priority that it purports to have under that Financing Agreement;
 - (ii) ceases or fails to attach to any Collateral that is intended to be the subject of that Financing Agreement; or
 - (iii) ceases to secure the payment of the money or the performance of the obligations that it purports to secure.

10.2 Remedies

- (a) Without limiting any rights under any Financing Agreement, at any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements and any Swap Agreement, the UCC, the PPSA, Australian Law and other Applicable Law, all of which rights and remedies may be exercised without notice to or consent by any Credit Party or Red Ash, except as such notice or consent is expressly provided for hereunder or required by Applicable Law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, any Swap Agreement, the UCC, the PPSA or other Applicable Law, are cumulative, not exclusive and enforceable, in Lender's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by any Credit Party or Red Ash of this Agreement or any of the other Financing Agreements and any Swap Agreement. Lender may, at any time or times, proceed directly against any Credit Party to collect the Obligations without prior recourse to the Collateral.

- (b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation:
- (i) accelerate the payment of all Obligations (other than any Obligations with respect to any Swap Agreement, which may be terminated in accordance with its own terms) and demand immediate payment thereof to Lender (provided, that, upon the occurrence of any Event of Default described in Sections 10.1(e), (f), (g), (h), (l), (o) and (s) (other than under or in connection with any Swap Agreement, which may be terminated in accordance with its own terms), all Obligations shall automatically become immediately due and payable);
 - (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of any Credit Party;
 - (iii) require any Credit Party, at Borrower's expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender;
 - (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral;
 - (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose;
 - (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of such Credit Party or Red Ash, which right or equity of redemption is hereby expressly waived and released by the Credit Parties or Red Ash;
 - (vii) borrow money and use the Collateral directly or indirectly in carrying on its business or as security for loans or advances for any such purposes;
 - (viii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with any Credit Party or Red Ash, debtors of any Credit Party or Red Ash, sureties and others as Lender may see fit without prejudice to the liability of any Credit Party, Red Ash's or Lender's right to hold and realize the Liens created under any Financing Agreement; and/or

- (ix) terminate this Agreement. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, 15 days prior notice by Lender to Borrower Agent designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be proper notice thereof and the Credit Parties waive any other notice. In the event Lender institutes an action to recover any Collateral or seeks recovery of any Collateral by way of pre-judgment remedy, the Credit Parties waive the posting of any bond which might otherwise be required.
- (c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Borrowers shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.
- (d) Without limiting the foregoing, upon the occurrence of a Default or Event of Default, Lender shall without notice, (i) cease making Revolving Loans or arranging for Letter of Credit Accommodations or reduce the lending formulas or amounts of Revolving Loans and Letter of Credit Accommodations available to Borrower and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Lender to Borrowers.
- (e) At any time an Event of Default has occurred, Lender may appoint, remove and reappoint any person or persons, including an employee or agent of Lender to be a receiver (the "**Receiver**") which term shall include a receiver and manager, monitor, liquidator, consultant of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of the applicable Credit Party or Red Ash and not of Lender, and Lender shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Lender, all money received by such Receiver shall be received in trust for and paid to Lender. Such Receiver shall have all of the powers and rights of Lender described in this Section. Lender may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.
- (f) Borrowers shall pay all costs, charges and expenses incurred by Lender or any Receiver or any nominee or agent of Lender, whether directly or for services rendered (including, without limitation, solicitor's costs on a solicitor and his own client basis, auditor's costs, other legal expenses and Receiver remuneration) in enforcing this Agreement or any other Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a

result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

- (g) Upon an Event of Default, whether or not there is any availability pursuant to any calculation of the borrowing base hereunder, without any notice or demand whatsoever, the right of Borrowers to receive any further advances or accommodations of credit shall be immediately terminated and Lender shall be entitled, in addition to all other remedies at law and under any security or other agreement, to continue to exercise its rights under and in connection with this Agreement and the other Financing Agreements, including the right to notify and direct any Persons to pay any amounts payable to any Credit Party directly to Lender, to have direct, exclusive and unfettered access to the Blocked Accounts or any lockbox and/or any collection account, to sweep such accounts on a daily basis and transfer all funds to Lender's Payment Account with any other financial institution acceptable to Lender and to apply any credit balance against the Obligations in such order as it deems fit which the parties hereto hereby acknowledge, confirm and agree is a contractual right provided to Lender hereunder in order for Lender to manage and monitor its Collateral and not a proceeding for enforcement or recovery of a claim, or pursuant to, or as an enforcement of, any security or remedies whatsoever, that the cash management arrangements contemplated herein are critical to the structure of the lending arrangements contemplated herein, that Lender is relying on each Credit Parties' acknowledgement, confirmation and agreement with respect to such cash management arrangements in making accommodations of credit available to Borrowers and in particular that any accommodations of credit are being provided by Lender to Borrowers strictly on the basis of the borrowing base calculation hereunder to fully support and collateralize any such accommodations of credit hereunder.
- (h) Lender may at any time, in its sole discretion and without demand or notice to anyone, set-off any liability owed to any Credit Party or Red Ash by Lender against any Obligations, whether or not due.
- (i) Lender may at any time that an Event of Default exists, deliver a written notice giving an account debtor or other Person obligated to pay an Account, or other amount due, notice that the Account, or other amount due has been assigned to Lender for security and must be paid directly to Lender. Borrowers shall join in giving such notice and shall acknowledge and confirm any such notice upon Lender's request. After Borrowers or Lender gives such notice, Lender may, but need not, in Lender's or in any Credit Party's or Red Ash's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, such Account or other amount due, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including Collateral obligations) of any account debtor or other obligor. Lender may, in Lender's name or in any Credit Party's name, as its agent and attorney-in-fact, notify any applicable postal service to change the address for delivery of its mail to any address designated by Lender,

otherwise intercept their mail, and receive, open and dispose of their mail, applying all Collateral as permitted under this Agreement and holding all other mail for their account or forwarding such mail to their last known address.

- (j) Credit Parties hereby grant to Lender the right and an irrevocable licence, at any time upon an Event of Default and without notice or consent, to take possession (subject to rights of prior creditors but not any affiliate) of all locations where it conducts its business, has any Collateral or has any rights of possession, including the Real Property and other locations described on the Information Certificate (the “**Premises**”), until the earlier of (i) indefeasible payment in full and discharge of all Obligations and termination of this Agreement; or (ii) final sale or disposition of all items constituting Collateral by Lender and delivery of those items to purchasers.
- (k) Lender may use the Premises, at any time during an Event of Default and without notice or consent, to store, process, manufacture, sell, use, and liquidate or otherwise dispose of items that are Collateral, to generally operate the business of the Credit Parties and for any other incidental purposes deemed appropriate by Lender.
- (l) Lender shall not be obligated to pay rent or other compensation for the possession or use of any Premises, at any time during an Event of Default and without notice or consent, and in particular any Premises owned by any affiliate of any Credit Party, but if Lender elects to pay rent or other compensation to the owner of any Premises in order to have access to the Premises, then Borrowers shall promptly reimburse Lender all such amounts, as well as all taxes, fees, charges and other expenses at any time payable by Lender with respect to the Premises by reason of the execution, delivery, recordation, performance or enforcement of any terms of this Agreement.
- (m) Without limiting the generality of any other Financing Agreement, each of the Credit Parties hereby grant to Lender a non-exclusive, worldwide and royalty-free irrevocable license to use or otherwise exploit all Intellectual Property and distribution arrangements for the purpose of (a) selling, leasing, liquidating or otherwise disposing of any or all Collateral upon an Event of Default; and (b) generally operating the business of the Credit Parties upon an Event of Default.
- (n) If any Credit Party or Red Ash fails to perform or observe any of its obligations under this Agreement or any other Financing Agreement at any time, Lender may, but need not, perform or observe them on their behalf and may, but need not, take any other actions which Lender may reasonably deem necessary to cure or correct this failure; and Borrowers shall pay Lender upon demand the amount of all costs and expenses (including reasonable legal fees and expense) incurred by Lender in performing these obligations, together with interest on these amounts at the default rate hereunder.

- (o) To facilitate Lender's performance or observance of Credit Parties or Red Ash's obligations under this Agreement, Credit Parties hereby irrevocably appoint Lender and Lender's agents, as their and Red Ash's attorney in fact (which appointment is coupled with an interest) with the right (but not the duty) to create, prepare, complete, execute, deliver, endorse or file on their behalf any instruments, documents, assignments, security agreements, financing statements, applications for insurance and any other agreements required to be obtained, executed, delivered or endorsed by them in accordance with the terms of this Agreement and the other Financing Agreements.

SECTION 11 - JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

11.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver

- (a) The validity, interpretation and enforcement of this Agreement and, unless otherwise specified therein, the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to rules or principles relating to conflicts of laws).
- (b) Each Credit Party and Red Ash and Lender irrevocably consent and submit to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against any Credit Party or Red Ash or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against any Credit Party or Red Ash or its property).
- (c) Each Credit Party and Red Ash hereby waive personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth herein and service so made shall be deemed to be completed 5 days after the same shall have been so deposited in the Canadian mail or U.S. mail, as applicable, or, at Lender's option, by service upon such Credit Party and Red Ash in any other manner provided under the rules of any such courts. Within 30 days after such service, such Credit Party and Red Ash shall appear in answer to such process, failing which such Credit Party and Red Ash shall be deemed in default and judgment

may be entered by Lender against such Credit Party and Red Ash for the amount of the claim and other relief requested.

- (d) EACH CREDIT PARTY, RED ASH AND LENDER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (I) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (II) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO AND RED ASH IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH CREDIT PARTY, RED ASH AND LENDER HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT SUCH CREDIT PARTY, RED ASH OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO AND RED ASH TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Lender shall not have any liability to any Credit Party or Red Ash (whether in tort, contract, equity or otherwise) for losses suffered by any Credit Party or Red Ash in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender, that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct of Lender. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement. Except as prohibited by law, each Credit Party and Red Ash waives any right which it may have to claim or recover in any litigation with Lender any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. Each Credit Party and Red Ash (i) certifies that Lender nor any representative, agent or attorney acting for or on behalf of Lender has represented, expressly or otherwise, that Lender would not, in the event of litigation, seek to enforce any of the waivers provided for in this Agreement or any of the other Financing Agreements and (ii) acknowledges that in entering into this Agreement and the other Financing Agreements, Lender is relying upon, among other things, the waivers and certifications set forth in this Section 11.1 and elsewhere herein and therein.
- (f) Unless otherwise provided for under this Agreement or any other Financing Agreement, the Credit Parties and Red Ash hereby expressly waive all rights of notice and hearing of any kind prior to the exercise of rights by Lender from and after the occurrence of an Event of Default to repossess the Collateral with

judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. The Credit Parties and Red Ash waive the posting of any bond otherwise required of Lender in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Lender, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, this Agreement or any other Financing Agreement.

11.2 Waiver of Notices

Each Credit Party and Red Ash hereby expressly waive demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and chattel paper, included in or evidencing any of the Obligations or the Collateral, and, to the extent permitted by Applicable Law, any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on any Credit Party or Red Ash which Lender may elect to give shall entitle such Credit Party or Red Ash to any other or further notice or demand in the same, similar or other circumstances.

11.3 Amendments and Waivers

Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of Borrower Agent. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any Event of Default or any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

11.4 Waiver of Counterclaims

Each Credit Party and Red Ash waive all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

11.5 Indemnification

Each Credit Party shall, jointly and severally, indemnify and hold each of Lender and each Lender, and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or

proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel, except to the extent that any of the foregoing arises out of the gross negligence or wilful misconduct of the party being indemnified (as determined by a final non-appealable judgment of a court of competent jurisdiction). To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, each Credit Party shall pay the maximum portion which it is permitted to pay under Applicable Law to Lender and Lenders in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

SECTION 12 - TERM OF AGREEMENT; MISCELLANEOUS

12.1 Term

- (a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the date which is 5 years from the date hereof (the “**Maturity Date**”) unless sooner terminated pursuant to the terms hereof (the date of any such termination being herein referred as the “**Termination Date**”). Upon the Termination Date, Borrowers shall pay to Lender, in full, all outstanding and unpaid Obligations (except under or in connection with any Swap Agreement) and shall furnish cash collateral to Lender in such amounts as Lender determines are necessary to secure Lender from loss, cost, damage or expense, including legal fees and expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and any Swap Agreement and cheques or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in Canadian Dollars to such bank account of Lender, as Lender may, in its discretion, designate in writing to Borrower Agent for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrowers to the bank account designated by Lender are received in such bank account later than 12:00 noon, Toronto time
- (b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Credit Parties or Red Ash of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until Lender has received release documentation satisfactory to it and all Obligations have been fully and finally discharged and paid, and Lender’s continuing security interest in the Collateral and the rights and remedies of Lender hereunder, under the other Financing Agreements and Applicable Law, shall remain in effect until such release documentation has been received and all such Obligations have been

fully and finally discharged and paid. Lender covenants and agrees to execute and deliver, at the sole cost and expense of Borrowers, all discharges/releases of security reasonably required by Borrowers upon Lender's receipt of all release documentation satisfactory to it, indefeasible payment of all Obligations in full and Lender has terminated this Agreement in writing.

- (c) If for any reason this Agreement is terminated (whether voluntarily or involuntarily or as a result of an event of Default) prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a calculation of Lender's lost profits as a result thereof, Borrowers agree to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	Amount	Period
(i)	1.0% of the Maximum Credit	From the date hereof to and including the first anniversary of the date hereof.

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Credit Parties and Red Ash agree that it is reasonable under the circumstances currently existing. In addition, Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(e), (f), (g), (h), (l), (o) and (s) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrowers or permit the use of cash collateral under any applicable reorganization or insolvency legislation. The early termination fee provided for in this Section shall be deemed included in the Obligations but shall be waived by Lender if the credit facilities contemplated herein are refinanced by a Commercial Banking Office of Lender eighteen (18) months or more after the date hereof.

12.2 Interpretative Provisions

- (a) All terms used herein which are defined in the PPSA or the Australian PPSA shall have the meanings given therein, unless otherwise defined in this Agreement.
- (b) All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires.
- (c) All references to any Credit Party, Red Ash or Lender pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns.
- (d) The words "hereof", "herein", "hereunder", "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a

whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

- (e) The word “**including**” when used in this Agreement shall mean “**including, without limitation**”.
- (f) An Event of Default shall exist or continue or be continuing until such Event of Default is waived in writing by Lender or is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured as determined by Lender.
- (g) Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for valuations as used in the preparation of the financial statements of the Credit Parties most recently received by Lender prior to the date hereof.
- (h) In the computation of periods of time from a specified date to a later specified date, the word “**from**” means “**from and including**”, the words “**to**” and “**until**” each mean “**to but excluding**” and the word “**through**” means “**to and including**”.
- (i) Unless otherwise expressly provided herein, (i) references herein to any agreement, document or instrument shall be deemed to include all subsequent amendments, modifications, supplements, extensions, renewals, restatements or replacements with respect thereto, but only to the extent the same are not prohibited by the terms hereof or of any other Financing Agreement, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, recodifying, supplementing or interpreting the statute or regulation.
- (j) This Agreement and the other Financing Agreements are the result of negotiations among and have been reviewed by counsel to Lender and the other parties, and are the products of all parties. Accordingly, this Agreement and the other Financing Agreements shall not be construed against Lender merely because of Lender’s involvement in their preparation.

12.3 Notices

All notices, requests and demands hereunder shall be in writing and deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by certified mail, return receipt requested, 5 days after mailing. All notices, requests and demands upon the parties are to

be given to the following addresses (or to such other address as any party may designate by notice in accordance with this Section):

If to a Borrower or any other Credit Party or Red Ash:

c/o 80 New Bond Street
London, UK W1S 1SB

Attention: Christopher Emmott
Fax: +44 (0) 207-317-2051

If to Lender:

Wells Fargo Capital Finance Corporation Canada
40 King Street West, Suite 2500
Toronto, ON M5H 3Y2
Canada

Attention: Portfolio Management – Kraus Group of Companies
Phone: 416-775-2902
Fax: 416-775-2990

12.4 Partial Invalidity

If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by Applicable Law.

12.5 Judgment

If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder or under any other Financing Agreement in one currency into another currency, the rate of exchange used shall be that at which, in accordance with normal procedures, Lender could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of any Credit Party in respect of any such sum due from it to Lender hereunder or under the other Financing Agreements shall, notwithstanding any judgment in a currency (the “**Judgment Currency**”) other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement or the other Financing Agreements (the “**Agreement Currency**”), be discharged only to the extent that on the Business Day following receipt by Lender of any sum adjudged to be so due in the Judgment Currency, Lender may, in accordance with normal procedures, purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to Lender in such currency, each Credit Party agrees, as a separate obligation and notwithstanding any such judgment, to indemnify Lender or the Person to whom such obligation was owing against such loss. If the amount of the

Agreement Currency so purchased is greater than the sum originally due to Lender in such currency, Lender agrees to return the amount of any excess to such Credit Party (or to any other Person who may be entitled thereto under Applicable Law).

12.6 **Confidentiality**

- (a) Lender shall use all reasonable efforts to keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices, any non-public information supplied to it by any Credit Party or Red Ash pursuant to this Agreement which is clearly and conspicuously marked as confidential at the time such information is furnished by, on, or on behalf of, Borrowers to Lender, provided, that, nothing contained herein shall limit the disclosure of any such information: (i) to the extent required by statute, rule, regulation, subpoena or court order, (ii) to bank examiners and other regulators, auditors and/or accountants, in connection with any litigation to which Lender is a party, (iii) to any Lender or Participant (or prospective lender or Participant) or to any Affiliate of Lender so long as such Lender or Participant (or prospective lender or Participant) or Affiliate shall have been instructed to treat such information as confidential in accordance with this Section, or (iv) to counsel for Lender or Participant (or prospective lender or Participant).
- (b) In the event that Lender receives a request or demand to disclose any confidential information pursuant to any subpoena or court order, Lender agrees (i) to the extent permitted by Applicable Law or if permitted by Applicable Law, to the extent Lender determines in good faith that it will not create any risk of liability to Lender, Lender will promptly notify Borrower Agent of such request so that Borrowers may seek a protective order or other appropriate relief or remedy and (ii) if disclosure of such information is required, disclose such information and, subject to reimbursement by Borrowers of Lender's expenses, cooperate with Borrowers in the reasonable efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to such portion of the disclosed information which a Borrower so designates, to the extent permitted by Applicable Law or if permitted by Applicable Law, to the extent Lender determines in good faith that it will not create any risk of liability to Lender.
- (c) In no event shall this Section or any other provision of this Agreement, any of the other Financing Agreements or Applicable Law be deemed: (i) to apply to or restrict disclosure of information that has been or is made public by any Credit Party or Red Ash or any third party or otherwise becomes generally available to the public other than as a result of a disclosure in violation hereof, (ii) to apply to or restrict disclosure of information that was or becomes available to Lender (or any Affiliate of any Lender) on a non-confidential basis from a person other than a Credit Party or Red Ash, (iii) to require Lender to return any materials furnished by any Credit Party or Red Ash to Lender or prevent Lender from responding to routine informational requests in accordance with the *Code of Ethics for the Exchange of Credit Information* promulgated by The Robert Morris Associates or other applicable industry standards relating to the exchange of credit information.

The obligations of Lender under this Section shall supersede and replace the obligations of Lender under any confidentiality letter signed prior to the date hereof.

12.7 Successors

This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Lender, the Credit Parties and their respective participants, successors and assigns and each reference to Lender hereunder shall include such participant, successor and assign, except that no Credit Party may assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Lender. Any such purported assignment without such express prior written consent shall be void. The terms and provisions of this Agreement and the other Financing Agreements are for the purpose of defining the relative rights and obligations of the Credit Parties, Red Ash and Lender with respect to the transactions contemplated hereby and there shall be no third party beneficiaries of any assignment by any Credit Party or Red Ash of any of the terms and provisions of this Agreement or any of the other Financing Agreements.

12.8 Sharing of Information

Subject to the provisions hereof and for the purposes of administering this Agreement, Lender may share any information that it may have regarding the Credit Parties and Red Ash and its affiliates with its accountants, attorneys, and other advisors, and Lender and each direct and indirect subsidiary of Lender may also share any information that they have with each other, and in each case provided that the confidentiality (subject to any legal compulsion or court order) of any confidential information is maintained, the Credit Parties and Red Ash hereby consent to the sharing of all such information.

12.9 Permitted Liens

For greater certainty, it is hereby understood and agreed by the parties hereto that the definition and use of the term “**Permitted Liens**” herein shall mean that such Liens are permitted to exist but shall in no way be interpreted to mean that such Liens are entitled to any priority over Lender’s Liens and, subject to the provisions of any Agreement between Lender and one or more other secured creditors, the Credit Parties and Red Ash hereby specifically and expressly acknowledge and agree that any such Liens not properly perfected under Applicable Law shall not be entitled to priority over Lender’s Liens and that this Agreement is not intended and shall not confer any rights upon any Person whatsoever who is not a party to this Agreement.

12.10 Publication

The Credit Parties and Red Ash hereby consent to Lender publishing and disclosing such details of the credit facilities contemplated hereunder as it deems appropriate for advertising or public relations purposes with prior consent from Red Ash in respect of external publications not to be unreasonably withheld.

12.11 Credit Information

The Credit Parties and Red Ash hereby consent to the collection, use, exchange and disclosure of credit or other information from time to time by Lender with any other financial institution, credit bureau, credit reporting agency and any Person which they may have business dealings with. The Credit Parties and Red Ash understand that this information may be used for any purpose relating to this Agreement, including the exercise of any of Lender's or any participant's or syndicated lenders' rights hereunder or under any other Financing Agreement.

12.12 Acknowledgement

For greater certainty, it is hereby understood and agreed by the parties hereto that any and all Financing Agreements delivered to and in favour of Lender hereunder shall continue at any and all times to stand as general continuing collateral security for any and all debts, liabilities and obligations owing at any time and from time to time to any part or division or affiliate of Lender including any affiliate of Lender which enters into Swap Agreements with any Credit Party.

12.13 Adjudication of Credit

The Credit Parties and Red Ash acknowledge and agree that the determination by Lender of the Borrowing Base, any Operating Company Advance Limit, the eligibility of Accounts for margining purposes and margin rates in relation to Eligible Accounts shall in no way be construed by them as an assessment, adjudication or opinion by Lender of the strength or creditworthiness of any Accounts or account debtors in relation to such Accounts. Credit Parties shall perform its own due diligence and credit inquiries in relation to its account debtors and Accounts and shall not rely upon anything in this Agreement or in support of its decisions to extend credit to any trade or account debtor.

12.14 Assignments; Participations

- (a) Lender may, without Borrowers consent, assign all or, if less than all, a portion equal to at least \$1,000,000 in the aggregate, of such rights and obligations under this Agreement to one or more assignees, each of which assignees shall become a party to this Agreement as a lender by execution of an Assignment and Acceptance; provided, that, (i) such transfer or assignment will not be effective until recorded by Lender on the Register, (ii) Lender shall have received for its sole account payment of a processing fee from the assignee, and (iii) prior to a Default only, Lender will not make any such transfer assignment to a liquidation company.
- (b) Lender shall maintain a register of the names and addresses of lenders, their commitments and the principal amount of their loans (the "**Register**"). Lender shall also maintain a copy of each Assignment and Acceptance delivered to and accepted by it and shall modify the Register to give effect to each Assignment and Acceptance. The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Credit Parties, Red Ash and Lender may

treat each Person whose name is recorded in the Register as a lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by Borrowers and any lender at any reasonable time and from time to time upon reasonable prior notice.

- (c) Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and to the other Financing Agreements and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations (including, without limitation, the obligation to participate in Letter of Credit Accommodations) of a lender hereunder and thereunder and the assigning lender shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement.
- (d) By execution and delivery of an Assignment and Acceptance, the assignor and assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, the assigning lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any of the other Financing Agreements or the execution, legality, enforceability, genuineness, sufficiency or value of this Agreement or any of the other Financing Agreements furnished pursuant hereto, (ii) the assigning lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Credit Party or Red Ash or any of their Subsidiaries or the performance or observance by any Credit Party or Red Ash of any of the Obligations; (iii) such assignee confirms that it has received a copy of this Agreement and the other Financing Agreements, together with such other documents and information it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (iv) such assignee will, independently and without reliance upon the assigning lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Financing Agreements, (v) such assignee appoints and authorizes Lender to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Financing Agreements as are delegated to Lender by the terms hereof and thereof, together with such powers as are reasonably incidental thereto, and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement and the other Financing Agreements are required to be performed by it as a lender. Lender may furnish any information concerning any Credit Party or Red Ash in the possession of Lender from time to time to assignees and Participants.
- (e) Lender may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement and the other

Financing Agreements (including, without limitation, all or a portion of its Commitments and the Loans owing to it and its participation in the Letter of Credit Accommodations without any consent); provided, that, (i) Lender's obligations under this Agreement (including, without limitation, its Commitment hereunder) and the other Financing Agreements shall remain unchanged, (ii) Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and the Credit Parties and Red Ash and the other lenders shall continue to deal solely and directly with Lender in connection with such Lender's rights and obligations under this Agreement and the other Financing Agreements, and (iii) the Participant shall not have any rights under this Agreement or any of the other Financing Agreements (the Participant's rights against Lender in respect of such participation to be those set forth in the agreement executed by Lender in favour of the Participant relating thereto) and all amounts payable by any Credit Party hereunder shall be determined as if such Lender had not sold such participation.

- (f) Each Credit Party and Red Ash shall assist Lender permitted to sell assignments or participations under this Section in whatever manner reasonably necessary in order to enable or effect any such assignment or participation, including (but not limited to) the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested and the delivery of informational materials, appraisals or other documents for, and the participation of relevant management in meetings and conference calls with, potential lenders or Participants. Each Credit Party and Red Ash shall certify the correctness, completeness and accuracy, in all material respects, of all descriptions of such Credit Party and Red Ash and its affairs provided, prepared or reviewed by such Credit Party and Red Ash that are contained in any selling materials and all other information provided by it and included in such materials.

12.15 Entire Agreement

This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto and Red Ash, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

12.16 Headings

The division of this Agreement into Sections and the insertion of headings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

12.17 Paramountcy

Notwithstanding any other provision of this Agreement or any Financing Agreement, in the event of any conflict or inconsistency between the provisions of this Agreement and the provisions of any other Financing Agreement, the provisions of this Agreement shall prevail and be paramount to the extent of such conflict or inconsistency.

12.18 USA Patriot Act

Lender which is subject to the *USA Patriot Act* (Title III of Pub.L. 107-56 (signed into law October 26, 2001) (the “**Patriot Act**”) hereby notifies each Credit Party and Red Ash that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies each person or corporation who opens an account and/or enters into a business relationship with it, which information includes the name and address of each Credit Party and Red Ash and other information that will allow Lender to identify such person in accordance with the Patriot Act and any other Applicable Law. Each Credit Party and Red Ash is hereby advised that any Revolving Loans or Letters of Credit Accommodations hereunder are subject to satisfactory results of such verification. In addition, if Lender is required by law or regulation or internal policies to do so, it shall have the right to periodically conduct (a) Patriot Act searches, OFAC/PEP searches, and customary individual background checks for each Credit Party and Red Ash, and (b) OFAC/PEP searches and customary individual background checks for the senior management and key principals of each Credit Party and Red Ash, and Credit Parties and Red Ash agree to cooperate in respect of the conduct of such searches and further agree that Borrowers shall pay to Lender on demand the reasonable costs and charges for such searches.

12.19 Anti-Money Laundering Legislation

- (a) Each Credit Party and Red Ash acknowledge that, pursuant to the Proceeds of Crime Money Laundering and Terrorist Financing Act (Canada) and other applicable anti-money laundering, anti-terrorist financing, government sanction and “*know your client*” laws, under the laws of Canada (collectively, including any guidelines or orders thereunder, “**AML Legislation**”), Lender may be required to obtain, verify and record information regarding each Credit Party and Red Ash, its respective directors, authorized signing officers, direct or indirect shareholders or other Persons in control of such Credit Party and Red Ash, and the transactions contemplated hereby. Borrowing Agent shall promptly provide all such information, including supporting documentation and other evidence, as may be reasonably requested by Lender, or any prospective assign or participant of Lender, necessary in order to comply with any applicable AML Legislation, whether now or hereafter in existence.
- (b) If Lender has ascertained the identity of any Credit Party and Red Ash or any authorized signatories of any Credit Party and Red Ash for the purposes of applicable AML Legislation, then the Lender:

- (i) shall be deemed to have done so as an agent for each lender, and this Agreement shall constitute a “*written agreement*” in such regard between each lender and the Lender within the meaning of applicable AML Legislation; and
 - (ii) shall provide to each lender copies of all information obtained in such regard without any representation or warranty as to its accuracy or completeness.
- (c) Notwithstanding the provisions of this Section and except as may otherwise be agreed in writing, each lender agrees that Lender has no obligation to ascertain the identity of the Credit Parties and Red Ash or any authorized signatories of the Credit Parties and Red Ash on behalf of any lender, or to confirm the completeness or accuracy of any information it obtains from the Credit Parties and Red Ash or any such authorized signatory in doing so.

12.20 Counterparts, Etc.

This Agreement or any of the other Financing Agreements may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Agreement or any of the other Financing Agreements by fax or PDF shall have the same force and effect as the delivery of an original executed counterpart of this Agreement or any of such other Financing Agreements. Any party delivering an executed counterpart of any such agreement by fax or PDF shall also deliver an original executed counterpart, but the failure to do so shall not affect the validity, enforceability or binding effect of such agreement.

SECTION 13 - JOINT AND SEVERAL OBLIGATIONS

13.1 Joint and Several Obligations

Each Borrower hereby agrees that such Borrower is jointly and severally liable for the full and prompt payment (whether at stated maturity, by acceleration or otherwise) and performance of, all Obligations owed or hereafter owing to Lender by each other Borrower. Each Borrower agrees that its obligation hereunder is a continuing obligation of payment and performance and not of collection, that its obligations under this Section shall not be discharged until payment and performance, in full, of the Obligations has occurred, and that its obligations under this Section shall be absolute and unconditional, irrespective of, and unaffected by,

- (a) the genuineness, validity, regularity, enforceability or any future amendment or, or change in, this Agreement, any other Financing Agreement or any other agreement, document or instrument to which any Credit Party or Red Ash is or may become a party;

- (b) the absence of any action to enforce this Agreement (including this Section) or any other Financing Agreement or the waiver or consent by Lender with respect to any of the provisions thereof;
- (c) the existence, value or condition of, or failure to perfect its Lien against, any security for the Obligations or any action, or the absence of any action, by Lender in respect thereof;
- (d) the insolvency of any Credit Party or Red Ash;
- (e) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other extension, compromise, indulgence or renewal of any Obligation;
- (f) any reduction, limitation, variation, impairment, discontinuance or termination of the Obligations for any reason (other than by reason of any payment which is not required to be rescinded), including any claim of waiver, release, discharge, surrender, alteration or compromise, and shall not be subject to (and each Credit Party and Red Ash hereby waives any right to or claim of) any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, the Obligations or otherwise (other than by reason of any payment which is not required to be rescinded);
- (g) any amendment to, rescission, waiver or other modification of, or any consent to any departure from, any of the terms of any Financing Agreement or any other guarantees or security;
- (h) any addition, exchange, release, discharge, renewal, realization or non-perfection of any collateral security for the Obligations or any amendment to, or waiver or release or addition of, or consent to departure from, any other guarantee held by the Lenders as security for any of the Obligations;
- (i) the loss of or in respect of or the unenforceability of any other guarantee or other security which the Lender may now or hereafter hold in respect of the Obligations, whether occasioned by the fault of the Lenders or otherwise;
- (j) any change in the name of any Credit Party or Red Ash or in the organizational documents, capital structure, capacity or constitution of any Credit Party or Red Ash, the bankruptcy or insolvency of any Credit Party or Red Ash, the sale of any or all of any Credit Party's business or assets or any Credit Party or Red Ash being consolidated, merged or amalgamated with any other Person; or
- (k) any other action or circumstances that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor.

Each Borrower shall be regarded, and shall be in the same position, as principal debtor with respect to the Obligations hereunder. Lender shall not be bound to pursue or

exhaust their recourse against any Borrower or Credit Party or Red Ash or others or any security or other guarantees they may at any time hold before being entitled to payment hereunder from any Borrower.

13.2 Waivers by the Credit Parties

To the extent permitted by Applicable Law, each Credit Party and Red Ash expressly waives all rights it may have now or in the future under any statute, or at common law, or at law or in equity, or otherwise, to compel Lender to marshal assets or to proceed in respect of the Obligations hereunder against any other Credit Party or Red Ash, any other party or against any security for the payment and performance of the Obligations before proceeding against, or as a condition to proceeding against, such Credit Party or Red Ash. It is agreed among each Credit Party and Red Ash and Lender that the foregoing waivers are of the essence of the transaction contemplated by this Agreement and the other Financing Agreements and that, but for the provisions of this Section and such waivers, Lender would decline to enter into this Agreement.

13.3 Benefit of Joint and Several Obligations

Each Credit Party and Red Ash agrees that the provisions of this Section are for the benefit of Lender and its successors, transferees, endorsees, participants and assigns, and nothing herein contained shall impair, as between any other Credit Party or Red Ash and Lender, the obligations of such other Credit Party and Red Ash under the Financing Agreements.

13.4 Subordination of Subrogation, Etc.

Each Credit Party hereby expressly and irrevocably subordinates to payment of the Obligations any and all rights at law or in equity to subrogation, reimbursement, exoneration, contributions, indemnification or set off and any and all defenses available to a surety, guarantor or accommodation co-obligor until the Obligations are paid in full in cash. Each Credit Party acknowledges and agrees that this subordination is intended to benefit Lender and shall not limit or otherwise affect such Credit Party's liability hereunder or the enforceability of this Section, and that Lender and its successors and assigns are intended third party beneficiaries of the waivers and agreements set forth in this Section.

13.5 Election of Remedies

If Lender may, under Applicable Law, proceed to realize its benefits under any of the Financing Agreements giving Lender a Lien upon any Collateral, whether owned by any Credit Party or any other Person, either by judicial foreclosure or by non-judicial sale or enforcement, Lender may, at its sole option, determine which of its remedies or rights it may pursue without affecting any of its rights and remedies under this Section. If, in the exercise of any of its rights and remedies, Lender shall forfeit any of its rights or remedies, including its right to enter a deficiency judgment against any Credit Party or any other Person, whether because of any Applicable Laws pertaining to "*election of remedies*" or the like, each Credit Party and Red Ash hereby consent to such action by

Lender and waives any claim based upon such action, even if such action by Lender shall result in a full or partial loss of any rights of subrogation that each Credit Party and Red Ash might otherwise have had but for such action by Lender. Any election of remedies that results in the denial or impairment of the right of Lender to seek a deficiency judgment against any Credit Party shall not impair any other Credit Party's obligation to pay the full amount of the Obligations. In the event Lender bids at any foreclosure or trustee's sale or at any private sale permitted by law or the Financing Agreements, Lender may bid all or less than the amount of the Obligations and the amount of such bid need not be paid by Lender but shall be credited against the Obligations.

13.6 Limitation

Notwithstanding any provision herein contained to the contrary, each Borrower's liability under this Section shall be limited to an amount not to exceed as of any date of determination the greater of:

- (a) the net amount of all Loans advanced to such Borrower or to any other Borrower under this Agreement and then re-loaned or otherwise transferred to, or for the benefit of, such Borrower; and
- (b) the amount that could be claimed by Lender from such Borrower under this Section 14 without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state *Uniform Fraudulent Transfer Act*, *Uniform Fraudulent Conveyance Act* or similar statute or common law after taking into account, among other things, such Borrower's right of contribution and indemnification from each other Borrower under this Section hereof.

13.7 Contribution with Respect to Joint and Several Obligations

- (a) To the extent that any Credit Party shall make a payment under this Section of all or any of the Obligations (other than Loans made to that Credit Party for which it is primarily liable) (a "**Joint and Several Payment**") that, taking into account all other Joint and Several Payments then previously or concurrently made by any other Credit Party, exceeds the amount that such Credit Party would otherwise have paid if each Credit Party had paid the aggregate Obligations satisfied by such Joint and Several Payment in the same proportion that such Credit Party's "**Allocable Amount**" (as defined below) (as determined immediately prior to such Joint and Several Payment) bore to the aggregate Allocable Amounts of each of the Credit Parties as determined immediately prior to the making of such Joint and Several Payment, then, following payment in full in cash of the Obligations and termination of the Commitments, such Credit Party shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each other Credit Party for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Joint and Several Payment.

- (b) As of any date of determination, the “*Allocable Amount*” of any Credit Party shall be equal to the maximum amount of the claim that could then be recovered from such Credit Party under this Section without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state *Uniform Fraudulent Transfer Act*, *Uniform Fraudulent Conveyance Act* or similar statute or common law.
- (c) This Section is intended only to define the relative rights of the Credit Parties and nothing set forth in this Section is intended to or shall impair the obligations of the Credit Parties to jointly and severally pay any amounts as and when the same shall become due and payable in accordance with the terms of this Agreement, including this Section hereof. Nothing contained in this Section shall limit the liability of any Credit Party to pay the Loans made directly or indirectly to that Credit Party and accrued interest, fees and expenses with respect thereto for which such Credit Party shall be primarily liable.
- (d) The parties hereto acknowledge that the rights of contribution and indemnification hereunder shall constitute assets of the Credit Party to which such contribution and indemnification is owing.
- (e) The rights of the indemnifying the Credit Parties against other Credit Parties and Obligors under this Section shall be exercisable upon the full payment of the Obligations and the termination of the Commitments.

13.8 Liability Cumulative

The liability of the Credit Parties under this Section is in addition to and shall be cumulative with all liabilities of each Credit Party to Lender under this Agreement and the other Financing Agreements to which such Credit Party is a party or in respect of any Obligations of the other Credit Parties, without any limitation as to amount, unless the instrument or agreement evidencing or creating such other liability specifically provides to the contrary.

SECTION 14 - BORROWING AGENCY

14.1 Borrowing Agency Provisions

- (a) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to (i) borrow, (ii) request advances, (iii) request the issuance of Letter of Credit Accommodation, (iv) sign and endorse notes, (v) execute and deliver all instruments, documents, applications, security agreements, reimbursement agreements and letter of credit agreements for Letter of Credit Accommodation and all other certificates, notice, writings and further assurances now or hereafter required hereunder, (vi) make elections regarding interest rates, (vii) give instructions regarding Letters of Credit and agree with Issuer upon any amendment, extension or renewal of any Letter of Credit Accommodation and (viii) otherwise take action under and in connection with this Agreement and the other Financing Agreements, all on behalf of and in the name

such Borrower or Borrowers, and hereby authorizes Lender to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

- (b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Lender shall not incur liability to Borrowers as a result thereof. To induce Lender to do so and in consideration thereof, each Borrower hereby indemnifies Lender and holds Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Lender on any request or instruction from Borrowing Agent or any other action taken by Lender with respect to this Section except due to willful misconduct, bad faith or gross negligence by the indemnified party (as determined by a court of competent jurisdiction in a final and non-appealable judgment).
- (c) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted by Lender to any Borrower, failure of Lender to give any Borrower notice of borrowing or any other notice, any failure of Lender to pursue or preserve its rights against any Borrower, the release by Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof. Each Borrower waives all suretyship defenses.

[7 SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

Lender:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: 

Name: Carmela Massari
Title: Senior Vice President,
Loan Portfolio Manager

By: _____

Name: _____
Title: _____

Address for Notices:

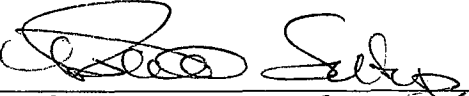
40 King Street West, Suite 2500
Toronto, Ontario, Canada, M5H 3Y2

Commitment:

CAD \$50,000,000


CAD Borrowers/
Canadian Operating Companies:

**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer


Address for Notices:
80 New Bond Street
London, UK W1S 1SB

**STRUDEX LP, by its general partner
STRUDEX-INC.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

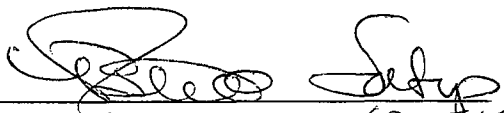
Address for Notices:
80 New Bond Street
London, UK W1S 1SB

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

U.S. Operating Companies/U.S. Borrowers:
KRAUS USA INC.

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

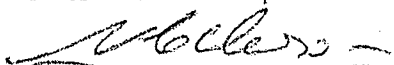
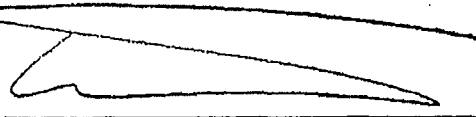
Address for Notices:
80 New Bond Street
London, UK W1S 1SB

BARRETT CARPET MILLS INC.

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

AUS Operating Company;
Executed by Northstate Carpet Mills Pty
Ltd ACN 010 558 540 in accordance with
section 127 of the Corporations Act 2001:

	
_____ Director/Company Secretary	_____ Director

NEIL CLIVE VERRAN	CLEMMENT
_____ Name of Director/Company Secretary (BLOCK LETTERS)	_____ Name of Director (BLOCK LETTERS)

Loan Parties:

KRAUS HOLDINGS COMPANY ULC

STRUDEX GP

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer


By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer


Address for Notices:
80 New Bond Street
London, UK W1S 1SB

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

KRAUS CARPET INC.

KRAUS PROPERTIES INC.

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

KRAUS SYSTEMS INC.

KRAUS CANADA LTD

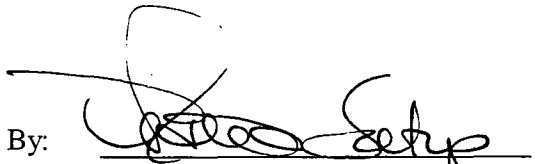
By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

KRAUS BRANDS INC.

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

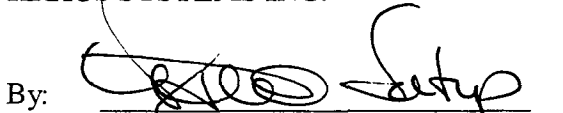
Address for Notices:
80 New Bond Street
London, UK W1S 1SB

**KRAUS PROPERTIES LP,
by its general partner
KRAUS PROPERTIES INC.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer


Address for Notices:
80 New Bond Street
London, UK W1S 1SB

**KRAUS SYSTEMS LP,
by its general partner
KRAUS SYSTEMS INC.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB


**KRAUS BRANDS LP,
by its general partner
KRAUS BRANDS INC.**

By: 
Name: PATRICIA SALTYS
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

THE UNDERSIGNED ACKNOWLEDGES AND AGREES to the provisions hereof but for greater certainty is not signing as a Loan Party or a Credit Party.

RED ASH CAPITAL PARTNERS II
LIMITED PARTNERSHIP,
by its general partner
PINNACLE CAPITAL RESOURCES
ULC

By: 
Name: C. Emmott
Title: Authorized Signing Officer

Address for Notices:
80 New Bond Street
London, UK W1S 1SB

**SCHEDULE 1.0
AGENT PAYMENT ACCOUNTS**

CAD Wire Instructions:	
Bank:	TD Canada Trust
Bank Address:	55 King Street West, Toronto, Ontario, Canada M5K 1A2
Transit Number	10202
Bank Number:	004
Canadian Clearing Code:	000410202
SWIFT Number:	TDOMCATTOR
Beneficiary:	Wells Fargo Capital Finance Corporation Canada
Beneficiary Account Number:	5388221
Beneficiary Address:	40 King Street West Suite 2500, Toronto, ON M5H 3Y2 Canada
Ordering Customer:	Kraus (Borrower)

USD Wire Instructions:	
Bank:	TD Canada Trust
Bank Address:	55 King Street West, Toronto, Ontario, Canada M5K 1A2
Transit Number	10202
Bank Number:	004
Canadian Clearing Code:	000410202
SWIFT Number:	TDOMCATTOR
Beneficiary:	Wells Fargo Capital Finance Corporation Canada
Beneficiary Account Number:	7387637
Beneficiary Address:	40 King Street West Suite 2500, Toronto, ON M5H 3Y2 Canada
Ordering Customer:	Kraus (Borrower)

Intermediary Bank for USD Payment (Only for paying from Non-Canadian Bank):	
U.S. Correspondent Bank:	Bank of America, N.A.
ABA Number:	026009593
Bank Address:	New York, NY

**SCHEDULE 1.1
ELIGIBLE ACCOUNTS**

Kraus Canada

**List of account debtors with extended terms.
Eligible up to 120 days from invoice date.**

Account Number	Account Name
10299	A GALLERY OF FLOORS
10860	AD CARPET SHOP
13360	AWARD FLOORING INC
14341	BESTWAY CARPET & RUG
14921	BOLTON CARPET & INT
15761	BURLINGTON BROADLOOM
16307	C.PLANCHER JOLIETTE
16627	PLANCHERS REJEAN CHA
18628	CARPET SUPERSTORES
20187	CHAFE'S FLOORING & F
20787	CITY CARPETS(2006) L
23047	CRESCENT FLOORING
23604	D & T FLOORING
24084	DEALERS DIRECT FLOOR
25324	DIAMOND CARPET LTD
25344	DIAMOND CARPET
26044	DUNDAS CARPET & FLOO
28430	EXPRESS HARDWOOD FLO
29517	FLOOR MASTER INC
29597	THE FLOOR STORE LTD.
35677	IDEAL CARPETS &
36832	JA BRISSON & SONS
40078	LONSDALE FLOORING LT
41150	MAPLE LEAF FLOORING
43453	NATIONAL CARPET MILL
44673	NUFLOORS INC.
46982	PLAZA HOME DECORATIN
49647	ROB CARERE FLOORING
50188	ROYAL MATS LIMITED
51575	SIENA FLOORING INC
55636	TAYLOR CARPET ONE
55776	TEMPLETON TRADING IN
56396	TOP FLOORS & DESIGN
56957	U FLOOR ME
57514	V & J CARPETS AND FL
58711	WESTERN PACIFIC FLOO
58811	WESTWIND INTERIORS 6
59823	YOUR CHOICE FLOORING

SCHEDULE 1.2
MATERIAL CONTRACTS

1. Supply Agreements

- (a) Supply Agreement between BASF Australia Ltd. ABN 62 008 437 867 and Northstate Carpet Mills Pty ABN 14010558540 dated January 1, 2013.

2. Buying Group Agreements

- (a) USA Rebate Agreement between Kraus USA, Inc. and The Home Depot dated October 31, 2012.
- (b) USA Marketing Agreement between Kraus USA, Inc. and The Home Depot dated October 31, 2012.
- (c) Canadian Rebate Agreement between Kraus Canada LP and The Home Depot dated December 17, 2012.
- (d) Canadian Marketing Agreement between Kraus Canada LP and The Home Depot dated December 17, 2012.
- (e) Canada Domestic In Store Service Agreement between Kraus Canada LP and The Home Depot dated December 17, 2012.
- (f) Commercial Agreement between Kraus Canada LP and End of the Roll Carpet and Vinyl and Mega Group Inc. dated July 20, 2012.
- (g) Overview of Items and Impact Memorandum of Settlement (Renewal Agreement) between Strudex Fibres Ltd. and the UFCW Canada Local 175 dated May 8, 2012.
- (h) Memorandum of Settlement (Renewal Agreement) between Kraus Inc. and United Food and Commercial Workers Canada, Local 175 dated May 7, 2012.
- (i) Overview of Items and Impact Memorandum of Settlement (Renewal Agreement) between Kraus Inc. and the UFCW Canada Local 175 dated May 8, 2012.
- (j) Memorandum of Settlement (Renewal Agreement) between Strudex Fibres Ltd. And United Food and Commercial Workers Canada, Local 175.
- (k) Rebate Structure Agreement between Kraus Floors with More and Floor Coverings International dated November 1, 2011.

3. Collective Bargaining Agreements

- (a) Collective Agreement between Kraus Carpet LP and United Food & Commercial Workers Canada, Local 175 for the period of May 23, 2013 to June 30, 2015.

- (b) Collective Agreement between Strudex LP and United Food & Commercial Workers Canada, Local 175 for the period of May 23, 2012 to June 30, 2015.

4. Freight Forwarder/Customs Broker Agreements

- (a) Freight Forwarder Agreement between Rejoice Logistics (Canada) Inc. and Kraus Canada Ltd. dated July 18, 2013.
- (b) Freight Forwarder Agreement between CH Robinson Worldwide Inc. and Kraus Canada LP dated April 15, 2013.
- (c) Freight Forwarder Agreement between Schenker of Canada Limited and Kraus Canada LP dated May 2013.

5. License Agreements

- (a) License Agreement between Kahrs International Inc. and Kraus Canada LP dated July 1, 2012.
- (b) License Agreement between Shaw Industries, Inc. and Kraus Canada LP dated October 12, 2012.

6. Real Property Leases

- (a) Lease between Peel Properties Inc. and Kraus Canada LP for 375 Pendant Drive, Mississauga, ON, L5T 2W9, Canada.
- (b) Lease between I.G. Investment Management, Ltd. As Trustee for Investors Ral Property Fund and Kraus Canada LP for Unit 2 - Building 3, 15210-135 Ave, Edmonton, AB, T5V 1R9, Canada.
- (c) Lease between WCB Realty Limited and Kraus Canada LP for 1551 Church Ave., Winnipeg, MB, R2X 1G7, Canada.
- (d) Lease between Longo Development Corp. and Kraus Canada LP for 701 E Audley Blvd, Delta, BC, V3M 5P3, Canada.
- (e) Lease between T. Wein, P. Wein, J. Wein, P. Wein and Kraus USA, Inc. for 160 Amsler Ave. Shippenville, PA, 16254, USA.
- (f) Lease between Amwood LLP and Kraus USA for 310 Amsler Ave. Shippenville, PA, 16254, USA.
- (g) Lease between Oakesdale Business Park, LLC and Kraus USA, Inc. For 4051 Oakesdale Ave. SW, Renton, WA, 98057, USA.

**SCHEDULE 8.1
BORROWING BASE CERTIFICATE**

**SCHEDULE 9.6
COMPLIANCE CERTIFICATE**

To: Wells Fargo Capital Finance Corporation Canada (“Lender”)
Date: [<*>], 201<*>
Subject: Financial Statements

In accordance with our Credit Agreement dated [<*>] (as amended, restated, replaced, supplemented or extended from time to time, the “**Credit Agreement**”), attached are the financial statements of [<*>] (collectively, the “**Company**”) (the “**Reporting Date**”) and the year-to-date period then ended (the “**Current Financials**”). All terms used in this certificate have the meanings given in the Credit Agreement.

The undersigned hereby certifies the following for and on behalf of the Company (other than as specifically noted herein below) and without any personal liability other than as a result of fraud, willful blindness or bad faith.

A. Preparation and Accuracy of Financial Statements. That the Current Financials have been prepared in accordance with GAAP, subject to year-end audit adjustments, and fairly present the Company’s financial condition as of the Reporting Date.

B. Name of Company; Merger and Consolidation. That:

(Check one)

- Credit Parties have not, since the date of the Credit Agreement, changed its name or the jurisdiction of its organization or the jurisdiction of its chief executive officer and/or principal place of business, nor has it consolidated or merged with another Person.
- Credit Parties have, since the date of the Credit Agreement, either changed its name or jurisdiction of organization or the jurisdiction of its chief executive officer and/or principal place of business, or one or more of the above, or has consolidated or merged with another Person, which change, consolidation or merger:
 - was consented to in advance by Lender in an Authenticated Record, and/or
 - is more fully described in the statement of facts attached to this Certificate.

C. Collateral Locations. That the Credit Parties has not since the date of the Credit Agreement, changed or added any Collateral locations and none of Company’s locations of operation are not subject to a waiver and/or bailee agreement in form and substance satisfactory to Lender in its credit discretion or all Collateral locations have been previously disclosed to Lender in writing which has a value less than \$[<*>] other than as disclosed in this Certificate.

D. Events of Default. That:

(Check one)

- I have no knowledge of the occurrence of an Event of Default or of any event or circumstance which with notice or lapse of time or both, would or could result in an Event of Default under the Credit Agreement, except as previously reported to Lender in writing.
- I have knowledge of an Event of Default or of any event or circumstance which with notice or lapse of time or both, would or could result in an Event of Default under the Credit Agreement not previously reported to Lender in writing, as more fully described in the statement of facts attached to this Certificate, and further, I acknowledge that Lender may under the terms of the Credit Agreement impose the default rate at any time during the resulting default period.

E. Litigation Matters. That:

(Check one)

- I have no knowledge of any material adverse change to the litigation exposure of any Credit Party.
- I have knowledge of material adverse changes to the litigation exposure of any Credit Party not previously disclosed in Exhibit "D", as more fully described in the statement of facts attached to this Certificate.

F. Financial Covenants. That:

(Check and complete each of the following)

- (1) **FCCR.** Pursuant to the Credit Agreement, Company's Fixed Charge Coverage Ratio for the period ending on the reporting date, was , which satisfies does not satisfy the requirement under the Credit Agreement on the reporting date.
- (2) **Excess Availability.** Pursuant to the Credit Agreement, Excess Availability for the period ending on the reporting date, was .
- (3) **EBITDA.** Pursuant to the Credit Agreement, Company's EBITDA for the period ending on the reporting date, was , % of its projected EBITDA.
- (4) **Relevant Facts and Computations.** Attached are statements of all relevant facts and computations in reasonable detail sufficient to evidence Company's compliance with the financial covenants referred to above, which computations were made in accordance with GAAP.

- G. Priority Payables.** That Credit Parties have paid any and all amounts which are due and payable and which if unpaid may result in any right, claim, adverse interest or Lien whatsoever which is pari passu or in priority to the Liens in favour of Lender, including, goods and services taxes, employee deductions for income tax, Canada Pension Plan and employment insurance, employer health tax, workplace safety and insurance payments, vacation pay, wages, rent, utilities, municipal taxes, insurance premiums, business taxes, pension plan contributions and/or payments in respect of goods supplied within the last 30 days other than as previously disclosed to Lender in writing and all as more particularly set out on the Priority Payables Report attached hereto and hereby certified.
- H. Subsidiaries.** That Credit Parties have not, since the date of the Credit Agreement, acquired or established any subsidiary or affiliate other than as disclosed to Lender in writing.
- I. Material Contracts.** That Company has paid any and all amounts due and payable under and are in full compliance with any and all Material Contracts and that the only amounts which have accrued to date but are not yet due and payable thereunder have been disclosed to Lender in writing.
- J. AUS Operating Company.** That the undersigned has made all necessary inquiries, searches and investigations to determine and confirm that there are no outstanding mortgage payments with respect to the Australian Real Property and that there are no purchase money security interests against any of the AUS Operating Company's Inventory or Equipment other than as previously disclosed in writing to the Lender.



By: _____
Name:
Authorized Signing Officer

PRIORITY PAYABLES REPORT

AS AT: <*>

COMPANY NAME: <*>

		Amount Owed	Date Paid	Amount in Arrears	Amount of Accruals
1.	Employee Income Tax Withholdings				
2.	Unemployment Insurance (UIC) – Employees’ Portion				
3.	Canada Pension Plan (CPP) – Employees’ Portion				
4.	Employer’s Share of Payroll taxes				
5.	Corporate Income Tax				
6.	Goods & Services Tax (GST) or Harmonized Sales Tax				
7.	Provincial Sales Tax (PST)				
8.	Municipal Taxes				
9.	Workplace Safety and Insurance				
10.	Pension Plan				
11.	Vacation Pay				
12.	Wages				
13.	Utilities				
14.	Rent				
15.	Municipal Taxes				
16.	Employer Health Tax				
17.	Repairs/Storers/Processors				
18.	Unpaid Suppliers				
19.	Other Priority Payables				
	TOTAL				

The foregoing information is certified to be true, accurate and complete.

<*>

By: _____
 Name: _____
 Authorized Signing Officer

**SCHEDULE 9.8
LIENS**

**BORROWERS
Kraus Canada LP**

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626437 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627044 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		815450G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited Partnership		815500G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Blue Chip Leasing Corporation		201205743109 Expiry: April 10, 2018	All computer equipments and accessories of every nature of kind described in lease number 31754 between the secured party, as lessor and the debtor as lessee, as amended from time to time, together with all attachments, accessories, substitutions and all proceeds in any form derived directly or indirectly from any dealing with the collateral or proceeds thereof.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039200 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property.
Manitoba	Red Ash Capital		201211037909	The security interest

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Partners II Limited Partnership		Expiry: June 26, 2017	is taken in all of the debtors' present and after-acquired personal property.
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Bank of Montreal	684059679	20130111 1316 1532 0218 Expiry: January 11, 2018	A, O LF199 Pledge of stated sum as cash collateral. Account No. 002-1975-763
Ontario	Red Ash Capital Partners II Limited Partnership	679442706	20120625 1603 1590 3198 Expiry: June 25, 2017	I, E, A, O, M

Strudex LP

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626484 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627059 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815453G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property.
British Columbia	Red Ash Capital Partners II Limited		815508G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property.
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039308 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038000 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Ontario	Wells Fargo Capital Finance Corporation	686054178	20130415 1007 1793 9899	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Canada		Expiry: April 15, 2018	
Ontario	Red Ash Capital Partners II Limited Partnership	679442238	20120625 1546 1590 3188 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442922	20120625 1605 1590 3199 Expiry: June 25, 2017	I, E, A, O, M

Kraus Carpet LP

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626350 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626953 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815442G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815470G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Pitney Bowes Global Financial Services		121787H Expiry: December 31, 2018	Copier Lease 768151 MM4A Lease 768152 MM4A
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038506 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211037704 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Nissan Canada Finance A Division of Nissan Canada Inc.	684078129	20120114 1051 1529 5650 Expiry: January 14, 2018	E, O, M 2013 Nissan Pathfinder V.I.N: 5N1AR2MM1DC630404
Ontario	Bank of Montreal	684059661	20130111 1316 1532 0217 Expiry: January 11, 2018	A, O LF199 Pledge of stated sum as cash collateral. Account No. 2-1975-800
Ontario	Pitney Bowes	683833446	20121231 1031 8077 5349	E, O

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Global Financial Services		Expiry: December 31, 2018	Copier- Lease 768154 MM4A. Lease 768156 MM6N. Lease 768157 MM4A.
Ontario	Red Ash Capital Partners II Limited Partnership	679441491	20120625 1518 1590 3178 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442454	20120625 1559 1590 3196 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Financialinx Corporation	671217228	20110705 1951 1531 9254 Expiry: July 5, 2015	E, O, M 2011 Cadillac CTS V.I.N: 1G6DL5ED9B0123836
Ontario	BMW Canada Inc.	670868811	20110622 1050 1529 6770 Expiry: June 22, 2016	E, O, M 2011 BMW X5 XDRIVE35I V.I.N: 5UXZV4C55BL411417
Ontario	BMW Canada Inc.	670759902	20110617 1052 1529 3606 Expiry: June 17, 2016	E, O, M 2011 BMW X5 XDRIVE25I Sport V.I.N: 5UXZV4C51BL411897
Ontario	BMW Canada Inc.	666333315	20101203 1052 1529 5371 Expiry: December 3, 2015	E, O, M 2011 BMW 750LI XDRIVE Sedan V.I.N: WBAKC8C59BC433238
Ontario	BMW Canada Inc.	664827993	20100930 1323 1530 3375 Expiry: September 30, 2015	E, O, M 2011 BMW 335IS Convertible V.I.N: WBADX1C53BE569387

Kraus USA, Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	666653589	20101220 0900 1590 3887 Expiry: December 20, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	637147314	20120510 1604 1590 0870 Expiry: July 10, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II	636778152	20120510 1600 1590 0868	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Limited Partnership		Expiry: June 28, 2019	

Barrett Carpet Mills Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	664196166	20120510 1606 1590 0871 Expiry: September 3, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	663899967	20120510 1558 1590 0867 Expiry: August 24, 2019	I, E, A, O, M

GUARANTORS**Kraus Holdings Company ULC**

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12060817094 Expiry: June 8, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060817469 Expiry: June 8, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		783087G Expiry: June 7, 2017	All present and after acquired personal property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		783134G Expiry: June 7, 2017	All present and after acquired personal property of the debtor
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited		201209781501 Expiry: June 7, 2017	The security interest was taken in all of

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Partnership			the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209773606 Expiry: June 7, 2017	The security interest was taken in all of the debtor's present and after-acquired personal property.
Nova Scotia	Wells Fargo Capital Finance Corporation Canada		21068804 Expiry: April 15, 2018	All present and after acquired property of the debtor
Nova Scotia	Red Ash Capital Partners II Limited Partnership	FR-1398	19667799 Expiry: June 8, 2017	A security interest is taken in all of the debtors' present and after-acquired personal property
Nova Scotia	Red Ash Capital Partners II Limited Partnership	FR-1398	19667740 Expiry: June 8, 2017	A security interest is taken in all of the debtor's present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023432	20120607 1846 1590 2242 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678784032	20120531 1034 1590 1792 Expiry: May 31, 2017	I, E, A, O, M

Kraus Brands Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		07062205740 Expiry: June 22, 2019	All present and after acquired property of the debtors
Alberta	Red Ash Capital Partners II Limited Partnership		07062205872 Expiry: June 22, 2019	All present and after acquired property of the debtors
Alberta	Red Ash Capital Partners II Limited Partnership		07062607176 Expiry: June 26, 2017	All present and after acquired property of the debtors
Alberta	Red Ash Capital Partners II Limited Partnership		12060814964 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060815228 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital		12060815342	All of the debtor's

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Partners II Limited Partnership		Expiry: June 8, 2017	present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060815401 Expiry: June 8, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		783073G Expiry: June 7, 2017	All present and after acquired property of the debtors.
British Columbia	Red Ash Capital Partners II Limited Partnership		783081G Expiry: June 7, 2017	All present and after acquired property of the debtor.
British Columbia	Red Ash Capital Partners II Limited Partnership		783122G Expiry: June 7, 2017	All present and after acquired property of the debtors.
British Columbia	Red Ash Capital Partners II Limited Partnership		783132G Expiry: June 7, 2017	All present and after acquired property of the debtor.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 768928E Reg: 733272G Expiry: Jan 6, 2021	All present and after acquired personal property of the debtor and, without limitation, all fixtures, crops, and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 260062E Reg: 790033G Expiry: March 25, 2020	All present and after acquired personal property of the debtor and, without limitation, all fixtures, crops, and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 751700D Reg: 790035G Expiry: June 21, 2019	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 759450D Reg: 790044G Expiry: June 26, 2017	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 751694D Reg: 790047G Expiry: June 21, 2019	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
				licenses.
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209779302 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209778004 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209772804 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209772103 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711621503 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711379206 Expiry: June 20, 2019	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711376800 Expiry: June 20, 2019	The security interest is taken in all of the debtor's present and after-acquired personal property.
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023387	20120607 1837 1590 2238 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023396	20120607 1839 1590 2239 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783132	20120531 1026 1590 1788 Expiry: May 31, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783375	20120531 1028 1590 1789 Expiry: May 31, 2017	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Ontario	Red Ash Capital Partners II Limited Partnership	658035747	20120613 1223 1590 2489 Expiry: December 7, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	658053558	20120612 1006 1590 2431 Expiry: December 7, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691941	20120612 1008 1590 2433 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691959	20120612 1008 1590 2434 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691968	20120612 1007 1590 2432 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691977	20120612 1009 1590 2435 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530013	20120620 1153 1590 2900 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530022	20120605 1300 1590 2055 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530031	20120605 1301 1590 2056 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530049	20120605 1300 1590 2054 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530067	20120612 1005 1590 2429 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530076	20120605 1258 1590 2051 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530085	20120612 1006 1590 2430 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530094	20120605 1257 1590 2050 Expiry: June 20, 2019	I, E, A, O, M

Kraus Brands LP

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		07062205740 Expiry: June 22, 2019	All present and after acquired property of the debtors
Alberta	Red Ash Capital Partners II Limited Partnership		07062205872 Expiry: June 22, 2019	All present and after acquired property of the debtors

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Red Ash Capital Partners II Limited Partnership		07062607176 Expiry: June 26, 2017	All present and after acquired property of the debtors
Alberta	Red Ash Capital Partners II Limited Partnership		12060814964 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060815228 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		783073G Expiry: June 7, 2017	All present and after acquired property of the debtors.
British Columbia	Red Ash Capital Partners II Limited Partnership		783122G Expiry: June 7, 2017	All present and after acquired property of the debtors.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 768928E Reg: 733272G Expiry: Jan 6, 2021	All present and after acquired personal property of the debtor and, without limitation, all fixtures, crops, and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 260062E Reg: 790033G Expiry: March 25, 2020	All present and after acquired personal property of the debtor and, without limitation, all fixtures, crops, and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 751700D Reg: 790035G Expiry: June 21, 2019	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 759450D Reg: 790044G Expiry: June 26, 2017	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and licenses.
British Columbia	Red Ash Capital Partners II Limited Partnership		Base Reg: 751694D Reg: 790047G Expiry: June 21, 2019	All present and after acquired personal property of the debtors and, without limitation, all fixtures, crops and licenses.
Manitoba	Wells Fargo Capital Finance Corporation		201306080607 Expiry: April 15, 2018	All present and after acquired property of

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Canada			the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209778004 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209772103 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711621503 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711379206 Expiry: June 20, 2019	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		200711376800 Expiry: June 20, 2019	The security interest is taken in all of the debtor's present and after-acquired personal property.
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023396	20120607 1839 1590 2239 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783375	20120531 1028 1590 1789 Expiry: May 31, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	658035747	20120613 1223 1590 2489 Expiry: December 7, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	658053558	20120612 1006 1590 2431 Expiry: December 7, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691941	20120612 1008 1590 2433 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691959	20120612 1008 1590 2434 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691968	20120612 1007 1590 2432 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691977	20120612 1009 1590 2435 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530013	20120620 1153 1590 2900 Expiry: June 20, 2019	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Ontario	Red Ash Capital Partners II Limited Partnership	636530022	20120605 1300 1590 2055 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530031	20120605 1301 1590 2056 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530049	20120605 1300 1590 2054 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530067	20120612 1005 1590 2429 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530076	20120605 1258 1590 2051 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530085	20120612 1006 1590 2430 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530094	20120605 1257 1590 2050 Expiry: June 20, 2019	I, E, A, O, M

Kraus Canada Ltd.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626437 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626836 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627044 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627134 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815450G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815460G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
British Columbia	Red Ash Capital Partners II Limited		815500G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815526G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039600 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039200 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038301 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211037909 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442076	20120625 1543 1590 3186 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442328	20120625 1552 1590 3191 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442706	20120625 1603 1590 3198 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679443309	20120625 1611 1590 3202 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636691941	20120612 1008 1590 2433 Expiry: June 26, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530013	20120620 1153 1590 2900 Expiry: June 20, 2019	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	636530067	20120612 1005 1590 2429 Expiry: June 20, 2019	I, E, A, O, M

Kraus Carpet Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626350 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626726 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626953 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627091 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815442G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815454G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815470G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815516G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039405 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038506 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038107 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
				personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211037704 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679441491	20120625 1518 1590 3178 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442265	20120625 1548 1590 3189 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442454	20120625 1559 1590 3196 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679443102	20120625 1607 1590 3200 Expiry: June 25, 2017	I, E, A, O, M

Kraus Properties Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12060813079 Expiry: June 8, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060813163 Expiry: June 8, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060813334 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12060814849 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		783107G Expiry: June 7, 2017	All present and after acquired personal property of the debtor
British Columbia	Red Ash Capital Partners II Limited		783142G Expiry: June 7, 2017	All present and after acquired personal property of the debtor

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
British Columbia	Red Ash Capital Partners II Limited		783093G Expiry: June 7, 2017	All present and after acquired personal property of the debtors
British Columbia	Red Ash Capital Partners II Limited		783136G Expiry: June 7, 2017	All present and after acquired personal property of the debtors
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209781102 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201209780505 Expiry: June 7, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201209773509 Expiry: June 7, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201209773304 Expiry: June 7, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023405	20120607 1841 1590 2240 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023423	20120607 1844 1590 2241 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783861	20120531 1030 1590 1790 Expiry: May 31, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783996	20120531 1032 1590 1791 Expiry: May 31, 2017	I, E, A, O, M

Kraus Properties LP

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12060813334 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
				property
Alberta	Red Ash Capital Partners II Limited Partnership		12060814849 Expiry: June 8, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited Partnership		783093G Expiry: June 7, 2017	All present and after acquired personal property of the debtors
British Columbia	Red Ash Capital Partners II Limited Partnership		783136G Expiry: June 7, 2017	All present and after acquired personal property of the debtors
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201209780505 Expiry: June 7, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201209773304 Expiry: June 7, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679023423	20120607 1844 1590 2241 Expiry: June 7, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	678783996	20120531 1032 1590 1791 Expiry: May 31, 2017	I, E, A, O, M

Kraus Systems Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626414 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626757 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626997 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
				property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627116 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815457G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property.
British Columbia	Red Ash Capital Partners II Limited		815521G Expiry: June 26, 2017	All of the debtor's present and after acquired personal property.
British Columbia	Red Ash Capital Partners II Limited		815446G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815487G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039502 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039103 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038204 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211037801 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited	679441518	20120625 1520 1590 3179	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	Partnership		Expiry: June 25, 2017	
Ontario	Red Ash Capital Partners II Limited Partnership	679442292	20120625 1550 1590 3190 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442535	20120625 1601 1590 3197 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679443291	20120625 1609 1590 3201 Expiry: June 25, 2017	I, E, A, O, M

Kraus Systems LP

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626414 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626997 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815446G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815487G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039103 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Manitoba	Red Ash Capital Partners II Limited Partnership		201211037801 Expiry: June 26, 2017	The security interest is taken in all of the debtors' present and after-acquired personal property
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679441518	20120625 1520 1590 3179 Expiry: June 25, 2017	I, E, A, O, M

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Ontario	Red Ash Capital Partners II Limited Partnership	679442535	20120625 1601 1590 3197 Expiry: June 25, 2017	I, E, A, O, M

Strudex Inc.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Alberta	Wells Fargo Capital Finance Corporation Canada		13041507046 Expiry: April 15, 2018	All present and after acquired property of the debtor
Alberta	Red Ash Capital Partners II Limited Partnership		12062626484 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062626904 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627059 Expiry: June 26, 2017	All of the debtors' present and after-acquired personal property
Alberta	Red Ash Capital Partners II Limited Partnership		12062627185 Expiry: June 26, 2017	All of the debtor's present and after-acquired personal property
British Columbia	Wells Fargo Capital Finance Corporation Canada		290915H Expiry: April 15, 2018	All present and after acquired property of the debtor
British Columbia	Red Ash Capital Partners II Limited		815466G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815531G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property
British Columbia	Red Ash Capital Partners II Limited		815453G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property.
British Columbia	Red Ash Capital Partners II Limited		815508G Expiry: June 26, 2017	All of the debtors' present and after acquired personal property.
Manitoba	Wells Fargo Capital Finance Corporation Canada		201306080607 Expiry: April 15, 2018	All present and after acquired property of the debtor
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039707 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211039308 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
				after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038409 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Manitoba	Red Ash Capital Partners II Limited Partnership		201211038000 Expiry: June 26, 2017	The security interest is taken in all of the debtor's present and after-acquired personal property.
Ontario	Wells Fargo Capital Finance Corporation Canada	686054178	20130415 1007 1793 9899 Expiry: April 15, 2018	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442238	20120625 1546 1590 3188 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442427	20120625 1557 1590 3195 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679442922	20120625 1605 1590 3199 Expiry: June 25, 2017	I, E, A, O, M
Ontario	Red Ash Capital Partners II Limited Partnership	679443318	20120625 1613 1590 3203 Expiry: June 25, 2017	I, E, A, O, M

Some of the Australian property of Northstate Carpet Mills Pty Ltd. is leased from the State of Queensland and will only be owned by Northstate Carpet Mills Pty Ltd. on payment of an amount of \$845,519.92 to the State of Queensland. Northstate Carpet Mills Pty Ltd.'s Australian property is also subject to mortgages in favour of Pinnacle Capital Resources ULC.

Other Unsecured Financial Liabilities

None.

Northstate Carpet Mills Pty Ltd.

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
	AND NEW ZEALAND BANKING GROUP LIMITED		Expiry: May 23, 2038	term deposit account (being account no. 361681083) held with ANZ

Jurisdiction	Secured Party	File Number	Registration Details	Collateral Description
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201112200060017 Expiry: No stated end time	All present and after-acquired property - No exceptions – Fixed and Floating Charge dated 26 August 2008 granted by Northstate Carpet Mills Pty Ltd ACN 010 558 540 (Chargor) in favour of National Bank of Canada charging the whole of the Chargor's assets, undertaking and rights, both present and future.
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201112200060161 Expiry: No stated end time	All present and after-acquired property - No exceptions – Fixed and Floating Charge dated 26 August 2008 granted by Northstate Carpet Mills Pty Ltd ACN 010 558 540 (Chargor) in favour of BMO Capital Corporation charging the whole of the Chargor's assets, undertaking and rights, both present and future.
Australia	BASF AUSTRALIA LTD.		201112203204136 Expiry: December 17, 2018	Other goods - All goods supplied by the Secured Party to the Grantor as inventory together with goods and equipment which may be bailed, rented, leased or otherwise made available by the Secured Party to the Grantor.
Australia	KENNARDS HIRE PTY LIMITED		201201051227275 Expiry: October 31, 2018	Other goods - Any equipment that can be hired for use in Access, Brick & Paving, cleaning & floor care, concrete, cooling, heating, entertainment, earth moving & compaction, generators, landscaping & gardening, Lifting, lighting, plumbing, pumping, sawing, site equipment, tools, traffic control, vehicles & trailers.
Australia	A.P. EAGERS LIMITED		201202140128965 Expiry: February 14, 2037	Other goods - All goods sold and delivered to the grantor by the secured party.
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201203200072848 Expiry: No stated end time	All present and after-acquired property excluding any rights of the Chargor under any contract, lease or licence to the extent that the terms of the contract, lease or licence would be breached by the Chargor charging such of its rights by way of this charge unless the Chargor has received, or at any time receives consent from the counterparty to the charging of the Chargor's rights by way of this charge. This exclusion does not extend to the proceeds of any such contractual right.
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201205110062069 Expiry: May 11, 2037	All present and after-acquired property - No exceptions
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201205110062497 Expiry: May 11, 2037	All present and after-acquired property - No exceptions
Australia	BASF AUSTRALIA LTD.		201206060009857 Expiry: June 6, 2019	Other goods - All goods supplied by the Secured Party to the Grantor as inventory together with goods and equipment which may be bailed, rented, leased or otherwise made available by the Secured Party to the Grantor.
Australia	PINNACLE CAPITAL RESOURCES LIMITED		201206200006843 Expiry: No stated end time	All present and after-acquired property - No exceptions
Australia	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED		201305230017446 Expiry: May 23, 2038	Intangible property – Account - Specific security agreement over term deposit account held with ANZ.
Australia	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED		201305230018440 Expiry: May 23, 2038	Intangible property - General intangible - Specific security agreement over term deposit account (being account no. 361681083) held with ANZ.

**SCHEDULE 9.9
INDEBTEDNESS**

CDN\$107,000,000 owing by Kraus Holdings Company ULC to Red Ash Capital Partners II LP pursuant to a Credit Agreement dated November 23, 2010.

**SCHEDULE 9.10
LOANS, ADVANCES AND GUARANTEES**

BORROWERS**Kraus Canada LP**

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Strudex LP

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Carpet LP

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus USA, Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Barrett Carpet Mills Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

GUARANTORS**Kraus Holdings Company ULC**

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Brands Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Brands LP

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Canada Ltd.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Carpet Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Properties Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Properties LP

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Systems Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Kraus Systems LP

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Strudex Inc.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

Northstate Carpet Mills Pty Ltd.

- (1) Guarantee in favour of Red Ash Capital Partners II LP for obligations of Kraus Holdings Company ULC pursuant to a Guarantee dated June 29, 2012.

**SCHEDULE 9.18
BANK ACCOUNTS**

BMO Bank of Montreal First Canadian Place 100 King Street West, B2 Level Toronto, Ontario, M5X 1A3, Canada	
Account Name:	Account No.:
Kraus Properties LP Disbursements	00021974357
Kraus Brands LP Disbursements	00021974402
Kraus Canada LP Receipt	00021975376
Strudex LP Receipt C	00021975384
Kraus Carpet LP Receipt	00021975392
Kraus Canada LP	00021975763
Kraus Canada Payroll	00021975771
Kraus Carpet LP	00021975800
Kraus Carpet Payroll	00021975819
Strudex LP	00021975827
Strudex Payroll	00021975835
Kraus Canada LP Receipt	00024748098
Strudex LP Receipt U	00024748178
Kraus Carpet LP Receipt	00024748186
Kraus Canada LP	00024748725
Kraus Carpet LP	00024748733
Strudex LP	00024748768
Strudex LP AUD	111883987781

BMO Harris Bank 111 W. Monroe St. Chicago, IL, 60603, USA	
Account Name:	Account No.:
Barrett Carpet AR	1815737
Barrett Carpet AP	1816057
Kraus Inc. Depository Account	3163250
Kraus USA Inc.	3365467
Strudex LP	3987781
Kraus USA AR	4121760
Kraus USA AP	4123576

Australia and New Zealand Banking Group Limited Level 1, Eastside 232 Robina Town Centre Drive Australia	
Account Name:	Account No.:
Northstate	836128661
Northstate	361681083

Australia and New Zealand Banking Group Limited 209 Queen Street, Drechland New Zealand	
Account Name:	Account No.:
Northstate	010129025895800
Northstate	010129025898502

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this “Amendment”) is made as of this 29 day of February, 2016,

AMONG:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns (the “Lender”)

- and each of -

KRAUS CARPET LP,
STRUDEX LP,
KRAUS CANADA LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
KRAUS HOLDINGS COMPANY ULC,
STRUDEX INC.,
KRAUS CARPET INC.,
KRAUS PROPERTIES INC.,
KRAUS SYSTEMS INC.,
KRAUS CANADA LTD.,
KRAUS BRANDS INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS LP,
KRAUS BRANDS LP,

(each a “Credit Party”, and collectively the “Credit Parties”)

RECITALS:

- A. The Lender and the Credit Parties are party to a Credit Agreement dated August 6, 2013, as amended by a Consent dated July 25, 2014, a Consent dated December 30, 2014, a Consent dated March 17, 2015 (the “Australian Sale Consent”), a Consent dated March 31, 2015 and a Consent dated as of the date hereof (the “New Australian Consent”) (collectively, as may be further amended, restated supplemented or replaced, from time to time, the “Credit Agreement”);
- B. Pursuant to the Australian Sale Consent, the Lender consented to certain sales of the assets of the AUS Operating Company and the payment of the proceeds of such sales (collectively, the “Net Proceeds”) to Red Ash in return for a reduction of the Subordinated Secured Debt (the “Original Proceeds Distribution”);
- C. The Credit Parties have advised the Lender that the Original Proceeds Distribution cannot occur as originally authorized, and that the Net Proceeds shall now be distributed in accordance with the terms of the New Australian Consent, which includes, among other

things the inclusion of 2497919 Ontario Inc. (“**NCM Canada**”) as a participant in the Subordinated Secured Debt;

- D. To accommodate the foregoing, the Credit Parties have requested, and the Lender has agreed, subject to the terms and conditions hereof: (i) to add NCM Canada as a “Subordinated Secured Creditor” under the Credit Agreement; and (ii) to remove the AUS Operating Company as a “Borrower” and a “Credit Party” under the Credit Agreement.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement
2. **Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:

- (a) Section 1 of the Credit Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

““**Agent Payment Account**” shall mean (a) for funds delivered by a Canadian Operating Company in Canadian Dollars and in US dollars at accounts of Lender at The Toronto-Dominion Bank, Toronto, Ontario, and (b) for funds delivered by a US Operating Company in US Dollars at accounts of Lender at The Toronto-Dominion Bank or Lender for the first 90 days from the date hereof and only Lender thereafter; in each case, in accordance with the Account information and wire instructions set out on Schedule 1.0 hereto, or such other account as Lender may from time to time designate as the Agent Payment Account for purposes of this Agreement and the other Financing Agreements.”

““**Availability**” shall mean, as to each of, the Canadian Operating Companies (collectively) and the US Operating Companies (collectively), at any time, the amount equal to the sum of:

- (a) up to 85% of uninsured, and 90% of insured to the satisfaction of Lender, of the CAD Dollar Equivalent of the Net Amount of Eligible Accounts of the Canadian Operating Companies and the US Operating Companies; plus
- (b) up to the lesser of the amount of \$3,000,000 (which amount shall be permanently reduced by \$50,000 per month commencing on September 1, 2013) and 13% of the forced liquidation value of the Waterloo Property; plus
- (c) the lesser of:

- (i) up to 65% of the CAD Dollar Equivalent of the Value of Eligible Inventory of the Operating Companies; or
- (ii) up to 90% of the CAD Dollar Equivalent of the NOLV of Eligible Inventory of the Canadian Operating Companies and the US Operating Companies; or
- (iii) the CAD Dollar Equivalent of \$2,000,000 in respect of all Eligible In-Transit Inventory; or
- (iv) the CAD Dollar Equivalent of \$3,500,000 in respect of all raw materials (including, Eligible Greige Goods) Eligible Inventory; or
- (v) the CAD Dollar Equivalent of \$30,000,000 in respect of all Eligible Inventory; less

(d) any Reserves, applicable to such Operating Companies.”

“**Control**” means, with respect to any specified person, the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**Controlled**” and “**Controlling**” have corresponding meanings.”

“**Credit Parties**” shall mean, collectively, the Borrowers and the Loan Parties but for greater certainty not Red Ash.”

“**Group Members**” shall mean Kraus Holdings Company ULC and its Subsidiaries and the US Operating Companies.”

“**Operating Companies**” shall mean, collectively, the US Operating Companies and the Canadian Operating Companies; and each individually, an “**Operating Company**.”

“**Operating Company Advance Limit**” shall mean, (a) with respect to the US Operating Companies, an amount equal to the CAD Dollar Equivalent of (i) the Availability of the US Operating Companies, and (b) with respect to the CAD Borrowers, an amount equal to the CAD Dollar Equivalent of (i) the Availability of Canadian Operating Companies.”

“**Red Ash**” shall mean Red Ash Capital Partners II LP, 2497919 Ontario Inc. and their applicable Affiliates including Pinnacle Capital Resources ULC in its capacity as general partner of Red Ash Capital Partners II LP, and their respective successors and assigns.”

“**Solvent**” shall mean, at any time with respect to any Person and its subsidiaries, taken as a whole, that at such time such Persons (a) are able to pay its debts as they mature and have (and have a reasonable basis to believe they will continue to have) sufficient capital (and not unreasonably small capital) to carry on its

business consistent with its practices as of the date hereof, and (b) the assets and properties of such Persons at a fair valuation (and including as assets for this purpose at a fair valuation all rights of subrogation, contribution or indemnification arising pursuant to any guarantees given by such Persons) are greater than the Indebtedness of such Persons, and including subordinated and contingent liabilities computed at the amount which, such person has a reasonable basis to believe, represents an amount which can reasonably be expected to become an actual or matured liability (and including as to contingent liabilities arising pursuant to any guarantee the face amount of such liability as reduced to reflect the probability of it becoming a matured liability).”

““**Subsidiary**” or “**subsidiary**” shall mean, with respect to any Person, any corporation, limited liability company, limited liability partnership or other limited or general partnership, trust, association or other business entity of which an aggregate of at least a majority of the outstanding Capital Stock or other interests generally entitled to vote in the election of the board of directors of such corporation (irrespective of whether, at the time, Capital Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency), managers, trustees or other controlling persons, or an equivalent controlling interest therein, of such Person is, at the time, directly or indirectly, owned by such Person and/or one or more subsidiaries of such Person.”

- (b) Section 1 of the Credit Agreement is amended by deleting Subsection (g) of the definition of “Eligible Accounts” in its entirety and replacing it with the following:

“(g) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America or Canada, and, the Account is payable in Canadian Dollars or US Dollars, or in a foreign currency and, at Lender’s option, if either: (i) the account debtor has delivered to such Operating Company an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable in such foreign currency an amount, sufficient to cover such Account, in form and substance satisfactory to Lender and if required by Lender, the original of such letter of credit has been delivered to Lender or Lender’s agent and the issuer thereof has been notified of Lender’s interest and such Operating Company has complied with the terms hereof with respect to the assignment of the proceeds of such letter of credit to Lender or naming Lender as transferee beneficiary thereunder, as Lender may specify, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);”.

- (c) Section 1 of the Credit Agreement is amended by deleting Subsection (m) of the definition of “Eligible Inventory” in its entirety and replacing it with the following:

“(m) Inventory of any other Operating Company located outside the United States of America or Canada;”.

- (d) Section 1 of the Credit Agreement is amended by deleting Subsection (p) of the definition of “Permitted Liens” in its entirety and replacing it with the following:

“(p) **[Intentionally Deleted].**”

- (e) Section 1 of the Credit Agreement is amended by deleting Subsection (f) of the definition of “Reserves” in its entirety and replacing it with the following:

“(f) **[Intentionally Deleted].**”

- (f) Section 1 of the Credit Agreement is amended by deleting the following definitions in their entirety: “Australian Real Property”;

- (g) Section 1 of the Credit Agreement is amended by adding, in the applicable alphabetical order, the following:

““**NCM**” shall mean Northstate Carpet Mills PTY Ltd., ACN 010 558 540, a Commonwealth of Australia limited company, and its successors and assigns.”

- (h) Subsection 4.1(s) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(s) **[Intentionally Deleted].**”

- (i) Subsection 6.3(a) of the Credit Agreement is amended by deleting the first paragraph thereof in its entirety and replacing it with the following:

“(a) Each Operating Company shall establish and maintain, at its expense, lockboxes and related blocked accounts (in the case of US Operating Companies’, lockboxes, in the case of CAD Operating Companies, blocked accounts, in each case hereinafter referred to as, “**Blocked Accounts**”), as Lender may specify, with such banks as are acceptable to Lender into which such Operating Company shall promptly deposit, and US Borrowers shall direct its account debtors to directly remit within 90 days of the date hereof, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form and currency in which such payments are made, whether by cash, cheque or other manner. Each Operating Company shall deliver, or cause to be delivered to Lender, a Depository Account Control/Blocked Account/Lockbox Agreement, as applicable, duly authorized, executed and delivered by each bank where a Blocked Account is maintained as provided herein or at any time and from time to time Lender may

become bank's customer with respect to the Blocked Accounts and promptly upon Lender's request, such Operating Company shall execute and deliver such agreements or documents as Lender may require in connection therewith. Each Credit Party and Red Ash agrees that all payments made to such Blocked Accounts and all other funds received and collected by Lender, whether in respect of the Accounts, as proceeds of Inventory or other Collateral or otherwise shall be transferred daily to the applicable Agent Payment Account and in accordance with the definition of Agent Payment Account herein and shall be treated as payments to Lender in respect of the Obligations to be applied as set forth herein and therefore shall constitute the property of Lender to the extent of the then outstanding Obligations."

- (j) Subsection 6.5(b) of the Credit Agreement is deleted in its entirety and replaced with the following:

"(b) All Loans provided to Borrowers by Lender shall be in or denominated in US Dollars or Canadian Dollars at the request of Borrower Agent."

- (k) Subsection 7.1(d) of the Credit Agreement is deleted in its entirety and replaced with the following:

"(d) on a monthly basis within 15 days after each month end or more frequently as the lender may request, bank statements for all bank accounts of all Operating Companies;"

- (l) Subsection 8.16 of the Credit Agreement is deleted in its entirety and replaced with the following:

"8.16 Loan Parties

None of the Loan Parties nor Royal Scot Floor Covering Dist. LLC conducts any active business operations and has no assets other than the Capital Stock of a Credit Party and have no actual or contingent liabilities other than the Obligations. None of the Canadian Operating Companies or the US Operating Companies hold, manufacture, order, supply, process, distribute, store, receive or ship any goods to or for NCM or its Affiliates."

- (m) Subsection 9.9(o) of the Credit Agreement is deleted in its entirety and replaced with the following:

"(o) unsecured Indebtedness owing by an Operating Company to another Operating Company arising in connection with the purchase of inventory or with the performance of any administrative function, in each case, in the ordinary course of and pursuant to the reasonable requirements of such business and upon fair and reasonable terms no less favourable to such Operating Company than such Operating Company would obtain in a comparable arm's length transaction with an unaffiliated person; and"

(n) Subsection 9.6(e) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(e) Within 10 days after the end of each month, Borrower Agent shall provide to Lender a compliance certificate in form satisfactory to Lender substantially in the form attached hereto as Schedule 9.6 certifying compliance with the financial and other covenants set forth herein.”

(o) Subsection 9.11(d) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(d) **[Intentionally Deleted]**; and”.

(p) Subsection 9.26(f) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(f) **[Intentionally Deleted]**.”

(q) Subsection 10.1(h)(vii) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(vii) **[Intentionally Deleted]**.”

(r) Subsection 10.1(u) of the Credit Agreement is deleted in its entirety and replaced with the following:

“(u) **[Intentionally Deleted]**; or”.

(s) Item J on Schedule 9.6 to the Credit Agreement (the Compliance Certificate) is hereby deleted.

(t) For greater certainty, upon the effectiveness hereof NCM shall no longer be considered a “Credit Party” under the Credit Agreement, and each of the remaining Credit Parties acknowledges and agrees that all covenants and obligations under the Credit Agreement restricting or otherwise prohibiting the Credit Parties from transacting business with, incurring debt owing to, granting liens in favour of or otherwise dealing with Persons who are not Credit Parties shall, upon the effectiveness hereof, apply to NCM, including, without limitation, Sections 9.9, 9.10, 9.11 and 9.12 of the Credit Agreement.

3. Conditions Precedent. This Amendment shall be effective when the Lender shall have received a copy of this Amendment executed by the Credit Parties and acknowledged by Red Ash and NCM, together with each of the following, each in form and substance satisfactory to the Lender in its sole discretion:

(a) a fully executed copy of the Fourth Amendment to the Subordination Agreement among the Lender, Red Ash and the Credit Parties, dated as of August 6, 2013, as amended by a First Amendment to Subordination Agreement dated as of July 25, 2014, a Second Amendment to Subordination Agreement dated as of December 30, 2014 and a Third

Amendment to Subordination Agreement dated March 31, 2015, which shall be in form and substance satisfactory to the Senior Lender in its sole discretion;

- (b) receipt by the Lender of an amendment fee in the amount of \$10,000, which fee shall be deemed to be fully earned and payable upon the execution and delivery hereof; and
- (c) such other matters as the Senior Lender may reasonably require, in its sole discretion.

4. **Representations and Warranties.** Each the Credit Parties hereby represents and warrants to the Senior Lender as follows:

- (a) it has all requisite power and authority to execute this Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
- (b) the execution, delivery and performance by it of this Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
- (c) all of the representations and warranties contained in the Credit Agreement, as amended hereby, are correct on and as of the date hereof as though made on and as of such date.

5. **References.** All references in the Credit Agreement to “this Agreement” shall be deemed to refer to the Credit Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended from time to time.

6. **No Other Changes.** Except as explicitly amended by this Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.

7. **No Waiver.** The execution of this Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any breach, default or Event of Default under the Credit Agreement or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.


8. **Release.** Each of the Credit Parties and NCM hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Credit Parties has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
9. **Costs and Expenses.** The Credit Parties hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Credit Parties specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Credit Parties hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Credit Parties under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
10. **Counterparts and Execution.** This Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement. If an attorney executes this Amendment on behalf of NCM, such attorney declares that the attorney has no notice of revocation, termination or suspension of the power of attorney under which the attorney executes this Amendment.
11. **Governing Law.** This Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
12. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

Lender:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, , as lender and as agent for its affiliates and assigns

By: 
Name: _____
Title: Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance
Corporation Canada

Canadian Operating Companies:

**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: _____
Name: _____
Title: Authorized Signing Officer

**STRUDEX LP, by its general partner
STRUDEX INC.**

By: _____
Name: _____
Title: Authorized Signing Officer

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

By: _____
Name: _____
Title: Authorized Signing Officer

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

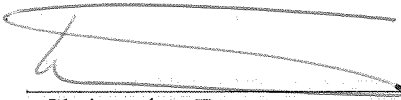
Lender:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, , as lender and as agent for its affiliates and assigns


By: _____
Name:
Title:

Canadian Operating Companies:

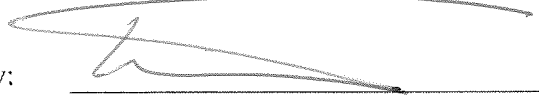
**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

**STRUDEX LP, by its general partner
STRUDEX INC.**


By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

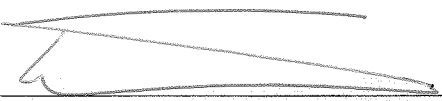
By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

U.S. Operating Companies:

KRAUS USA INC.

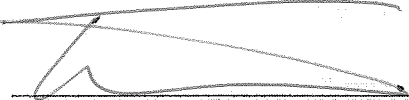
By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

BARRETT CARPET MILLS INC.

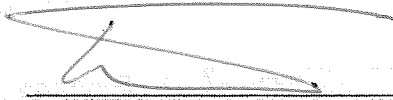
By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

Loan Parties:


KRAUS HOLDINGS COMPANY ULC

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer


STRUDEX INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer


KRAUS CARPET INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

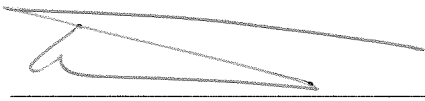
KRAUS PROPERTIES INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer


KRAUS SYSTEMS INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer


KRAUS CANADA LTD.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

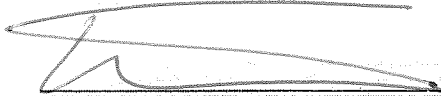
KRAUS BRANDS INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

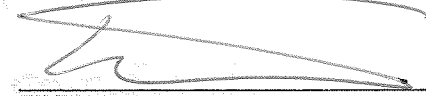
**KRAUS PROPERTIES LP,
by its general partner
KRAUS PROPERTIES INC.**

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

**KRAUS SYSTEMS LP,
by its general partner
KRAUS SYSTEMS INC.**

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

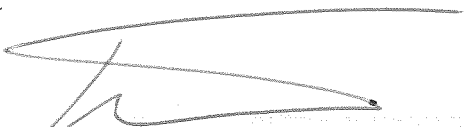
**KRAUS BRANDS LP,
by its general partner
KRAUS BRANDS INC.**


By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

EACH OF THE UNDERSIGNED ACKNOWLEDGES AND AGREES to the provisions hereof but for greater certainty is not signing as a Loan Party or a Credit Party.


**RED ASH CAPITAL PARTNERS II
LIMITED PARTNERSHIP,**
by its general partner
**PINNACLE CAPITAL RESOURCES
ULC**

2497919 ONTARIO INC.

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

By: 
Name: Christopher Emmott
Title: Authorized Signing Officer

Executed by **ACN 010 558 540 PTY
LTD (formerly Northstate Carpet Mills
Pty Ltd)** in accordance with section 127
of the Corporations Act 2001:


Director

CHRISTOPHER EMMOTT
Name of Director/Company Secretary
(BLOCK LETTERS)

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this “**Amendment**”) is made as of this 6th day of July, 2016,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns (the “**Lender**”)

- and each of -

**KRAUS CARPET LP,
STRUDEX LP,
KRAUS CANADA LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
KRAUS HOLDINGS COMPANY ULC,
STRUDEX INC.,
KRAUS CARPET INC.,
KRAUS PROPERTIES INC.,
KRAUS SYSTEMS INC.,
KRAUS CANADA LTD.,
KRAUS BRANDS INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS LP,
KRAUS BRANDS LP,**

(each a “**Credit Party**”, and collectively the “**Credit Parties**”)

RECITALS:

- A. The Lender and the Credit Parties are party to a Credit Agreement dated August 6, 2013, as amended by a Consent dated July 25, 2014, a Consent dated December 30, 2014, a Consent dated March 17, 2015, a Consent dated March 31, 2015, a Consent dated as of February 29, 2016 and a First Amendment to Credit Agreement dated February 29, 2016 (collectively, as may be further amended, restated supplemented or replaced, from time to time, the “**Credit Agreement**”); and
- B. The Credit Parties have requested, and the Lender has agreed, subject to the terms and conditions hereof, to amend certain of the terms applicable under the Credit Agreement.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement
2. **Amendments to Credit Agreement.** Section 1 of the Credit Agreement is amended by deleting subsection (c)(ii) of the definition of “**Availability**” in its entirety and replacing it with the following:

“(ii) up to 85% of the CAD Dollar Equivalent of the NOLV of Eligible Inventory of the Canadian Operating Companies and the US Operating Companies; or”.
3. **Conditions Precedent.** This Amendment shall be effective when the Lender shall have received a copy of this Amendment executed by the Credit Parties, in form and substance satisfactory to the Lender in its sole discretion.
4. **Representations and Warranties.** Each the Credit Parties hereby represents and warrants to the Senior Lender as follows:
 - (a) it has all requisite power and authority to execute this Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
 - (b) the execution, delivery and performance by it of this Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
 - (c) all of the representations and warranties contained in the Credit Agreement, as amended hereby, are correct on and as of the date hereof as though made on and as of such date.
5. **References.** All references in the Credit Agreement to “this Agreement” shall be deemed to refer to the Credit Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended from time to time.
6. **No Other Changes.** Except as explicitly amended by this Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.


7. **No Waiver.** The execution of this Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any breach, default or Event of Default under the Credit Agreement or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.
8. **Release.** Each of the Credit Parties hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Credit Parties has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
9. **Costs and Expenses.** The Credit Parties hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Credit Parties specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Credit Parties hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Credit Parties under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
10. **Counterparts and Execution.** This Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement.
11. **Governing Law.** This Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
12. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

Lender:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

By: 
Name: _____
Title: Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance Corporation Canada

Canadian Operating Companies:

**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: _____
Name: _____
Title: Authorized Signing Officer

**STRUDEX LP, by its general partner
STRUDEX INC.**

By: _____
Name: _____
Title: Authorized Signing Officer

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

By: _____
Name: _____
Title: Authorized Signing Officer

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

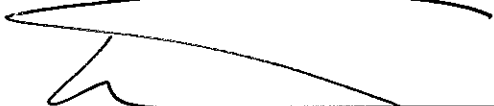
Lender:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, , as lender and as agent for its affiliates and assigns


By: _____
Name:
Title:

Canadian Operating Companies:

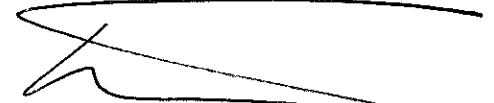
**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: 
Name: C. EMMOTT
Title: Authorized Signing Officer

**STRUDEX LP, by its general partner
STRUDEX INC.**

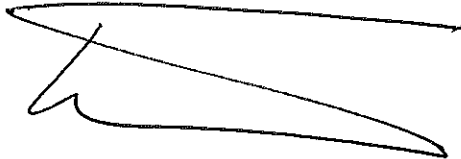
By: 
Name: C. EMMOTT
Title: Authorized Signing Officer

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

By: 
Name: C. EMMOTT
Title: Authorized Signing Officer

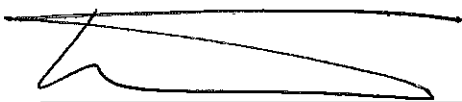
U.S. Operating Companies:

KRAUS USA INC.



By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

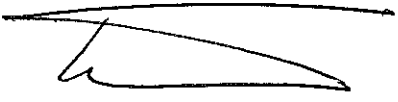
BARRETT CARPET MILLS INC.



By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

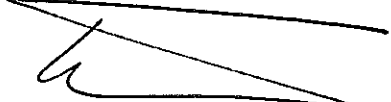
Loan Parties:

KRAUS HOLDINGS COMPANY ULC



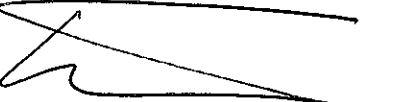
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

STRUDEX INC.



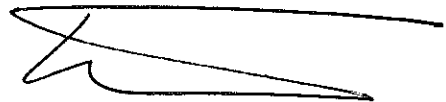
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

KRAUS CARPET INC.



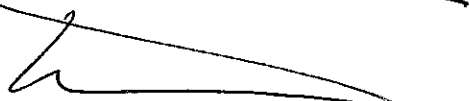
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

KRAUS PROPERTIES INC.



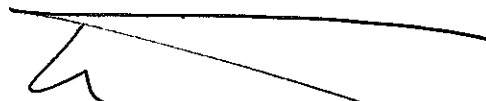
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

KRAUS SYSTEMS INC.



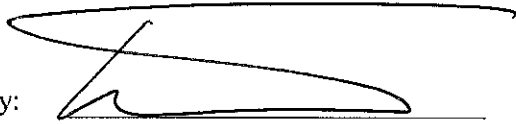
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

KRAUS CANADA LTD.



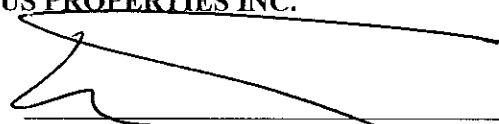
By: _____
Name: CLEMMENT
Title: Authorized Signing Officer

KRAUS BRANDS INC.



By: _____
Name: C. Emmott
Title: Authorized Signing Officer

**KRAUS PROPERTIES LP,
by its general partner
KRAUS PROPERTIES INC.**



By: _____
Name: C. Emmott
Title: Authorized Signing Officer

**KRAUS SYSTEMS LP,
by its general partner
KRAUS SYSTEMS INC.**



By: _____
Name: C. Emmott
Title: Authorized Signing Officer

**KRAUS BRANDS LP,
by its general partner
KRAUS BRANDS INC.**



By: _____
Name: C. Emmott
Title: Authorized Signing Officer

25994666.1

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this “**Amendment**”) is made as of this 13th day of July, 2016,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns (the “**Lender**”)

- and each of -

**KRAUS CARPET LP,
STRUDEX LP,
KRAUS CANADA LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
KRAUS HOLDINGS COMPANY ULC,
STRUDEX INC.,
KRAUS CARPET INC.,
KRAUS PROPERTIES INC.,
KRAUS SYSTEMS INC.,
KRAUS CANADA LTD.,
KRAUS BRANDS INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS LP,
KRAUS BRANDS LP,**

(each a “**Credit Party**”, and collectively the “**Credit Parties**”)

RECITALS:

- A. The Lender and the Credit Parties are party to a Credit Agreement dated August 6, 2013, as amended by a Consent dated July 25, 2014, a Consent dated December 30, 2014, a Consent dated March 17, 2015, a Consent dated March 31, 2015, a Consent dated February 28, 2016, a First Amendment to Credit Agreement to Credit Agreement dated February 29, 2016 and a Second Amendment to Credit Agreement dated July 6, 2016 (collectively, as may be further amended, restated supplemented or replaced, from time to time, the “**Credit Agreement**”);
- B. The Credit Parties failed to meet their Fixed Charge Coverage Ratio covenant required by Section 9.20 of the Credit Agreement in each month from January to December, 2015 (inclusive) (the “**Existing Defaults**”), which breaches constitute Events of Default under the Credit Agreement; and

- C. The Credit Parties have requested, and the Lender has agreed, subject to the terms and conditions hereof, to waive the Existing Defaults and amend certain of the terms and conditions of the Credit Agreement.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement.
2. **Waiver of Existing Defaults.** The Lender hereby waives the Existing Defaults, but such waiver shall not in any way be deemed to be a waiver of any future default or obligation of the Credit Parties under the Credit Agreement, including without limitation, any breach of the Fixed Charge Coverage Ratio covenant contained in the Credit Agreement.
3. **Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:
 - (a) Subsection (b) of the definition of “**Applicable Margin**” in Section 1 of the Credit Agreement is amended by replacing the text “1.25%” (being the Applicable Margin for Canadian Prime Rate Loans margined against the Waterloo Property) with “1.75%”.
 - (b) Section 1 of the Credit Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

““**Availability**” shall mean, as to each of, the Canadian Operating Companies (collectively) and the US Operating Companies (collectively), at any time, the amount equal to the sum of:

 - (a) up to 85% of uninsured, and 90% of insured to the satisfaction of Lender, of the CAD Dollar Equivalent of the Net Amount of Eligible Accounts of the Canadian Operating Companies and the US Operating Companies; plus
 - (b) up to the lesser of the amount of \$15,000,000 (which amount shall be permanently reduced by \$125,000 per month on the first Business Day of each month, commencing in July, 2016) and 54.3% of the forced liquidation value of the Waterloo Property; plus
 - (c) the lesser of:
 - (i) up to 65% of the CAD Dollar Equivalent of the Value of Eligible Inventory of the Operating Companies; or

- (ii) up to 85% of the CAD Dollar Equivalent of the NOLV of Eligible Inventory of the Canadian Operating Companies and the US Operating Companies; or
 - (iii) the CAD Dollar Equivalent of \$2,000,000 in respect of all Eligible In-Transit Inventory; or
 - (iv) the CAD Dollar Equivalent of \$3,500,000 in respect of all raw materials (including, Eligible Greige Goods) Eligible Inventory; or
 - (v) the CAD Dollar Equivalent of \$35,000,000 in respect of all Eligible Inventory; less
- (d) any Reserves applicable to such Operating Companies.”

“**Maximum Credit**” shall mean the amount of \$68,418,000 CAD Dollars or the Equivalent Amount in US Dollars.”

“**Maximum Revolving Credit**” shall mean the amount of \$65,000,000 CAD Dollars or the Equivalent Amount in US Dollars.”

- (c) Subsection 9.6(e) of the Credit Agreement is hereby amended by replacing “10 days” in the first line thereof with “20 days”.
- (d) Section 9.14 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

“9.14 Excess Availability

The Borrowers shall maintain Excess Availability of at least \$3,000,000 at any and all times, provided that, if at any time Excess Availability is determined to be below \$3,000,000, the Borrowers shall have three (3) Business Days to increase the Excess Availability \$3,000,000 before it shall be considered an Event of Default hereunder.”

4. Conditions Precedent. This Amendment shall be effective when the Lender shall have received a copy of this Amendment executed by the Credit Parties, together with each of the following, each in form and substance satisfactory to the Lender in its sole discretion:

- (a) all updated searches and due diligence in respect of the Waterloo Property deemed necessary by the Lender’s counsel, including, without limitation, title searches, realty tax search and building code searches;
- (b) an executed copy of a amending agreement to the charge/mortgage for the Waterloo Property, increasing the principal amount thereof to \$65,000,000 and the registration of same;

- (c) all postponements of other charges/mortgages and other instruments registered on title to the Waterloo Property deemed necessary by the Lender's counsel and the registration of same;
- (d) receipt by the Lender of an amendment fee in the amount of \$150,000, which fee shall be deemed to be fully earned and payable upon the execution and delivery hereof; and
- (e) such other matters as the Lender may reasonably require, in its sole discretion.

5. Consent to Repayment.

Notwithstanding the terms of the Credit Agreement, or the terms of the subordination agreement made among the Lender, the Credit Parties and each of Red Ash Capital Partners II Limited Partnership, Pinnacle Capital Resources Limited and 2497919 Ontario Inc. (collectively, the "**Subordinated Lenders**"), dated August 6, 2013, as amended by a First Amendment to Subordination Agreement dated as of July 25, 2014, a Second Amendment to Subordination Agreement dated as of December 30, 2014 and a Third Amendment to Subordination Agreement dated March 31, 2015 (the "**Subordination Agreement**"), the Lender hereby consents to the payment to the Subordinated Lenders of Cdn.\$500,000 (the "**Repayment Amount**") on account of the Subordinated Debt (as defined in the Subordination Agreement), provided that:

- (a) no Event of Default which has not been waived in writing by the Lender shall have occurred prior to paying the Repayment Amount to the Subordinated Lenders, and no Event of Default shall arise as a result of paying the Repayment Amount to the Subordinated Lenders; and
- (b) the Repayment Amount shall not be used to repay any of the outstanding Subordinated Revolving Facility. Repayment of the Subordinated Revolving Facility shall continue to be made in accordance with the Subordinated Revolving Repayment Conditions (as such term is defined in the First Amendment to Subordination Agreement between the Lender, the Credit Parties and the Subordinated Lenders dated July 25, 2014).

6. Representations and Warranties. Each the Credit Parties hereby represents and warrants to the Lender as follows:

- (a) it has all requisite power and authority to execute this Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
- (b) the execution, delivery and performance by it of this Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a

breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and

(c) all of the representations and warranties contained in the Credit Agreement, as amended hereby, are correct on and as of the date hereof as though made on and as of such date.

7. **References.** All references in the Credit Agreement to “this Agreement” shall be deemed to refer to the Credit Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended from time to time.
8. **No Other Changes.** Except as explicitly amended by this Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.
9. **No Waiver.** The execution of this Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any breach, default or Event of Default under the Credit Agreement or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.
10. **Release.** Each of the Credit Parties hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Credit Parties has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
11. **Costs and Expenses.** The Credit Parties hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Credit Parties specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Credit Parties hereby agree that the Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Credit Parties under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

12. **Counterparts and Execution.** This Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement.
13. **Governing Law.** This Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
14. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Lender, the Borrowers, the other Operating Companies and the Loan Parties have caused these presents to be duly executed as of the day and year first above written.

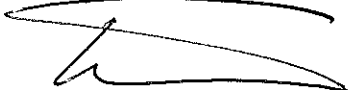
Lender:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

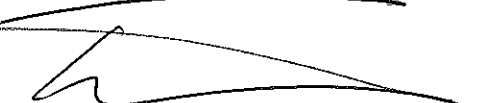
By: _____
Name:
Title:

Canadian Operating Companies:

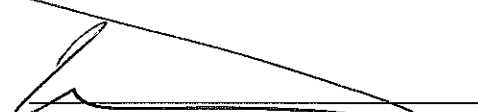
**KRAUS CARPET LP, by its General Partner
KRAUS CARPET INC.**

By: 
Name: C Emmott
Title: Authorized Signing Officer

**STRUDEX LP, by its general partner
STRUDEX INC.**

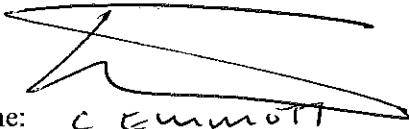
By: 
Name: C Emmott
Title: Authorized Signing Officer

**KRAUS CANADA LP, by its general partner
KRAUS CANADA LTD.**

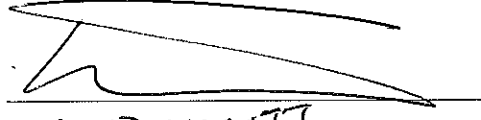
By: 
Name: C Emmott
Title: Authorized Signing Officer

U.S. Operating Companies:

KRAUS USA INC.

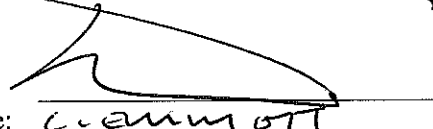
By: 
Name: C. Emmott
Title: Authorized Signing Officer

BARRETT CARPET MILLS INC.


By: 
Name: C. Emmott
Title: Authorized Signing Officer

Loan Parties:

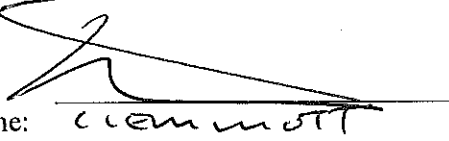
**KRAUS HOLDINGS COMPANY
ULC**

By: 
Name: C. Emmott
Title: Authorized Signing Officer

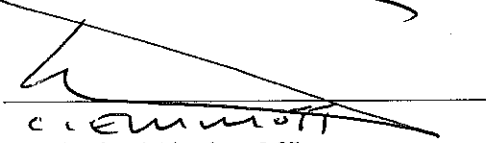
STRUDEX INC.

By: 
Name: C. Emmott
Title: Authorized Signing Officer

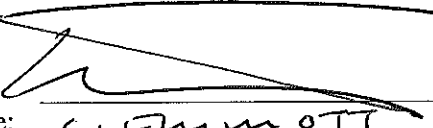
KRAUS CARPET INC.

By: 
Name: C. Emmott
Title: Authorized Signing Officer

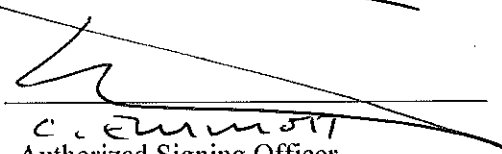
KRAUS PROPERTIES INC.

By: 
Name: C. Emmott
Title: Authorized Signing Officer


KRAUS SYSTEMS INC.

By: 
Name: C. Emmott
Title: Authorized Signing Officer

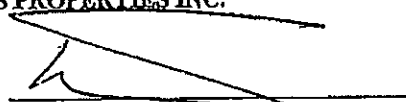
KRAUS CANADA LTD.

By: 
Name: C. Emmott
Title: Authorized Signing Officer


KRAUS BRANDS INC.

By: 
Name: C. Emmott
Title: Authorized Signing Officer


**KRAUS PROPERTIES LP,
by its general partner
KRAUS PROPERTIES INC.**

By: 
Name: C. Emmott
Title: Authorized Signing Officer

**KRAUS SYSTEMS LP,
by its general partner
KRAUS SYSTEMS INC.**

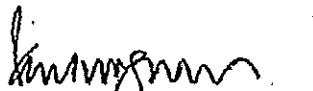
By: 
Name: C. Emmott
Title: Authorized Signing Officer

**KRAUS BRANDS LP,
by its general partner
KRAUS BRANDS INC.**

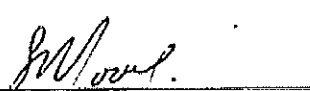
By: 
Name: C. Emmott
Title: Authorized Signing Officer

EACH OF THE UNDERSIGNED ACKNOWLEDGES AND AGREES to the provisions hereof but for greater certainty is not signing as a Loan Party or a Credit Party.

**RED ASH CAPITAL PARTNERS II
LIMITED PARTNERSHIP,
by its general partner
PINNACLE CAPITAL RESOURCES
ULC**

By: 
Name: PAUL MCGOWAN
Title: Authorized Signing Officer

2497919 ONTARIO INC.

By: 
Name: STEPHEN MOORE
Title: Authorized Signing Officer

26413248.5

Appendix “C”

Guarantee from Kraus Canada Ltd. dated August 6, 2013; and
General Security Agreement

GUARANTEE
KRAUS CANADA LTD.

THIS GUARANTEE (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, this “**Guarantee**”) dated August 6, 2013, is given by **KRAUS CANADA LTD.** (the “**Guarantor**”) to and in favour of **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as Lender and agent for its Affiliates and assigns under the Credit Agreement (as defined below) (the “**Lender**”).

WHEREAS:

- A.** Lender has entered into certain financing arrangements with Kraus Carpet LP, Kraus Canada LP, Strudex LP, Kraus USA, Inc. and Barrett Carpet Mills, Inc. (collectively “**Borrowers**”), the Guarantor and their Affiliates as set out in a credit agreement dated as of the date hereof (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Credit Agreement**”) pursuant to which Lender will make loans and provide other financial accommodations to Borrowers; and
- B.** In order to induce Lender to enter into the Credit Agreement and the other Financing Agreements and to make the loans and other financial accommodations under the Credit Agreement, and as a condition precedent thereto, Lender requires that Guarantor shall have executed and delivered this Guarantee.

NOW THEREFORE in consideration of the extension of credit by Lender to the Borrowers and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Guarantor, the Guarantor covenants and agrees, with and in favour of Lender as follows:

1. Guarantee

- (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”): (i) the Obligations; and (ii) all expenses (including, without limitation, reasonable attorneys’ fees and legal expenses) incurred by Lender in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of Borrowers’, Guarantor’s and other Obligor’s (as hereinafter defined) obligations, liabilities and indebtedness as aforesaid, the rights of Lender in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Lender directly or indirectly arising out of or related to the relationships between Borrowers, Guarantor or any other Credit Party and Lender, whether such expenses are incurred before, during or after the initial or any renewal term of the Credit Agreement and the other Financing Agreements or after the commencement of any case with respect to Borrowers, Guarantor or any other Credit Party under the BIA, CCAA or any similar statute.

- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Lender need not attempt to collect any Guaranteed Obligations from Borrowers, Guarantor or any other Credit Party or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Lender when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Lender may apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including reasonable attorneys' fees and legal expenses incurred by Lender with respect thereto or otherwise chargeable to Borrowers, Guarantor or any other Credit Party) and in such order as Lender may elect.
- (c) Payment by Guarantor shall be made to Lender at the office of Lender determined from time to time in accordance with Section 11 of this Guarantee, on demand as Guaranteed Obligations become due. Guarantor shall make all payments to Lender on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which Borrowers or any other Credit Party is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to interpose any claims, deductions, set-offs or counterclaims of any nature. Guarantor hereby waives, to the full extent allowed by law, any rights or benefits given by the provisions of any existing or future statutes which impose limitations upon the rights and powers of Lender hereunder with respect to claims against Guarantor.
- (d) To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Guarantee and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the "**Other Currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the "**Agreed Currency**") and Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Lender receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Subsection (d), continue in full force and effect.
- (e) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for

any reason (including, without limitation, because of any applicable state or federal or provincial law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by Guarantor without rendering such Guarantor's Guaranteed Obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Guarantor, Borrowers or any other Credit Party and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers, Guarantor or any other Credit Party is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to, (i) any amendment, modification, supplement, extension, renewal, or restatement of the Credit Agreement and any of the other Financing Agreements (other than those to which it is a party) that are amended, in each case, in accordance with the terms thereof, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Credit Agreement and the other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, extended, renewed or restated, increased or decreased, (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Lender for the obligations of Borrowers or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an "**Obligor**" and collectively, the "**Obligors**"), including, without limitation, the surrender or release by Lender of Guarantor hereunder, (iii) the exercise of, or refraining from the exercise of any rights against Borrowers, Guarantor or any other Obligor or any collateral and (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations. Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.
- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defense to this Guarantee, nor shall any other circumstance which might otherwise constitute a defense available to or legal or equitable discharge of Borrowers or any other Obligor in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defense to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Lender to perfect or continue perfection of any lien or security interest in any collateral or any delay by Lender in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to Borrowers or any other

Obligor under the BIA, CCAA or any similar statute, Guarantor shall be liable therefor, even if Borrowers' or other Obligor's liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Lender has not made any representations to Guarantor with respect to Borrowers, any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Lender or any statements by Lender in connection with this Guarantee.

- (c) Until the payment and performance of the Guaranteed Obligations in full, Guarantor hereby irrevocably and unconditionally waives and relinquishes (i) all statutory, contractual, common law, equitable and all other claims against Borrowers, any Obligor, any collateral for the Guaranteed Obligations or other assets of Borrowers or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Lender by Guarantor hereunder and (ii) any and all other benefits which Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantor, Borrowers or any other Obligor upon the Guaranteed Obligations or realized from their property, other than payments permitted under the Credit Agreement or any other Financing Agreements.

3. Subordination

Other than payments permitted under the Credit Agreement or any other Financing Agreements, payment of all amounts now or hereafter owed to Guarantor by Borrowers or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Lender of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Lender as security for the Guaranteed Obligations.

4. Acceleration

Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable upon the occurrence of an Event of Default which is continuing.

5. Account Stated

The books and records of Lender showing the account between Lender and Borrowers or any Obligor shall be admissible in evidence in any action or proceeding against or involving Guarantor as *prima facie* proof, absent manifest error, of the items therein set forth, and the monthly statements of Lender rendered to Borrowers or any Obligor to the extent to which no written objection is made within 30 days from the date of sending thereof to Borrowers or any Obligor shall be deemed conclusively correct and constitute an account stated between Lender and Borrowers or any Obligor and be binding on Guarantor.

6. Termination

This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until termination of the Credit Agreement by Lender.

7. Reinstatement

If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Guarantor shall be liable to pay to Lender, and does indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.

8. Amendments and Waivers

Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of each of Lender and Guarantor. Lender shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority

Guarantor is a corporation duly organized or a limited partnership duly formed and in good standing under the laws of its province or other jurisdiction of incorporation or formation, and is duly qualified and in good standing in all provinces or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, limited partnership agreement or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms.

10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver

- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Lender, whether in contract,

tort, equity or otherwise, shall be governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to conflicts of law).

- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Lender in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrowers or any Obligor and Lender or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on collateral at any time granted by Borrowers, Guarantor or any Obligor to Lender or to otherwise enforce its rights against Guarantor or its property).
- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made in accordance with the notice provisions of the Credit Agreement.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR OR LENDER IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Lender shall not have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on

Lender that the losses were the result of acts or omissions of Lender constituting gross negligence or wilful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Credit Agreement and the other Financing Agreements.

11. Notices

All notices, requests and demands hereunder shall be in writing and delivered (and deemed to have been made if made) in accordance with the notice provisions of the Credit Agreement.

12. Partial Invalidity

If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

13. Entire Agreement

This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

14. Successors and Assigns

This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Lender and its successors, endorsees, transferees and permitted assigns. Guarantor may only assign its rights and/or obligations under this Guarantee or any interest herein, and Lender may assign its rights and obligations under this Guarantee, in accordance with the Credit Agreement. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee.

15. Construction

All capitalized terms used herein but not defined herein shall have the meanings given to them in the Credit Agreement. All references to the term "Guarantor" wherever used herein shall mean Guarantor and its successors and assigns, individually and collectively, jointly and severally (including, without limitation, any receiver, trustee or custodian for Guarantor or its assets or Guarantor in its capacity as debtor or debtor-in-possession under the BIA and CCAA). All references to the term "Lender" wherever used herein shall mean Lender and its successors and assigns and all references to the term "Borrowers" wherever used herein shall mean Borrowers, or any one or more of them and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers, or any one or more of them, or any of their assets or Borrowers, or any one or more of them, in their capacity as debtor or debtor-in-possession under the BIA and CCAA). All references to the plural shall also mean the singular

and to the singular shall also mean the plural. In the event of any conflict between the provisions of this Guarantee and the provisions of the Credit Agreement, the provisions of the Credit Agreement shall supersede and govern.

16. Execution

This Guarantee may be executed in one or more counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same agreement. Execution of this Guarantee may be made by facsimile or pdf signatures, which, for all purposes, shall be deemed to be original signatures.

17. Paramountcy

If there is any conflict or inconsistency between this Guarantee and the Credit Agreement, the provisions of the Credit Agreement shall govern and be paramount, and any such provision in this Guarantee shall be deemed to be amended to the extent necessary to eliminate any such conflict, inconsistency, ambiguity or difference. Notwithstanding the foregoing, if there is any right or remedy of Lender set out in this Guarantee or any part thereof that is not set out or provided for in the Credit Agreement, such additional right or remedy shall not constitute a conflict, inconsistency, ambiguity or difference.

18. Limitation Period

The limited period on this Guarantee shall not begin to run until demand is made hereunder, and such limitation period (in accordance with the *Limitations Act, 2002* (Ontario) or any other applicable law) is hereby expressly stated to be a period of six (6) years from the date such demand is made.

19. Language

It is the express wish of the parties hereto that this Guarantee and any related documents be drawn up and executed in English. *Les parties conviennent que la présente convention et tous les documents s'y rattachant soient rédigés et signés en anglais.*

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Guarantor has executed and delivered this Guarantee as of the day and year first above written.

KRAUS CANADA LTD.

By: 
Name: PATRICIA SALTYS
Authorized Signing Officer

GENERAL SECURITY AGREEMENT
KRAUS CANADA LTD. and KRAUS CANADA LP

THIS GENERAL SECURITY AGREEMENT (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, this “**Agreement**”), dated _____, 2013, is made by **KRAUS CANADA LTD.** and **KRAUS CANADA LP** (collectively, the “**Debtor**”) to and in favour of **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as Lender and agent for its Affiliates and assigns under the Credit Agreement (as defined below) (the “**Lender**”).

WHEREAS:

- A.** Lender has entered into certain financing arrangements with Kraus Carpet LP, Kraus Canada LP, Strudex LP, Kraus USA, Inc. and Barrett Carpet Mills, Inc. (collectively, the “**Borrowers**”) and their Affiliates as set out in a credit agreement dated as of the date hereof (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Credit Agreement**”), pursuant to which Lender will make loans and provide other financial accommodations to Borrowers;
- B.** In order to induce Lender to enter into the Credit Agreement and the other Financing Agreements and to make the loans and other financial accommodations under the Credit Agreement, and as a condition precedent thereto, Lender requires that Debtor guarantee the Obligations of each other and the other Borrowers owing under the Credit Agreement and the other Financing Agreements and have executed and delivered this Agreement.

NOW THEREFORE in consideration of the extension of credit by the Lender to the Borrowers and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Debtor, the Debtor covenants and agrees, with and in favour of the Lender as follows:

SECTION 1
DEFINITIONS

- 1.1 All capitalized terms used herein but not defined herein shall have the meanings given to them in the Credit Agreement. All terms used herein which are defined in the PPSA or the STA shall have the meanings given therein, as applicable, unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Lender and Debtor or to any other person herein, shall include their respective successors and assigns. The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “including” when used in this Agreement shall mean “including, without limitation”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted and/or consolidated from time to time and any successor statute thereto. An Event of Default shall exist or continue or

be continuing until such Event of Default is waived in accordance with the applicable agreement, or, without derogating from the cure rights, if any, provided to Debtor hereunder and under the Credit Agreement, is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured, as determined by Lender. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

- (a) “**Control Agreement**” shall mean any present or future agreement or agreements entered into by Debtor, Lender and the applicable issuer, securities intermediary or futures intermediary, whereby the parties intend for Lender to obtain control of Investment Property.
- (b) “**Futures Accounts**” shall mean all of the present or future futures accounts maintained for Debtor by a futures intermediary, including all futures contracts carried in such futures accounts and the agreements between Debtor and the futures intermediary governing such futures accounts.
- (c) “**Investment Property**” shall mean all or any part of any present or future interest of Debtor in present and after acquired investment property, including all securities, Securities Accounts and Futures Accounts, all of the present and future security entitlements of Debtor as an entitlement holder of such security entitlements, all of the present and future futures contracts of Debtor as a futures customer in respect of such futures contracts, and all proceeds of any such property.
- (d) “**PPSA**” shall mean the *Personal Property Security Act* (Ontario) as it may be from time to time amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.
- (e) “**Securities Accounts**” shall mean all of the present or future securities accounts maintained for Debtor by a securities intermediary, including all of the financial assets credited to such securities accounts, all related securities entitlements and the agreements between Debtor and the securities intermediary governing such securities accounts.
- (f) “**Software**” shall mean computer programs, data, databases and text (regardless of the form in which it exists or the media upon which it resides) including all source code, object code or executable modules relating thereto, and all versions thereof together with all Intellectual Property related thereto or incorporated therein.
- (g) “**STA**” shall mean the *Securities Transfer Act, 2006* (Ontario) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.
- (h) “**UCC**” shall mean the Uniform Commercial Code as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

SECTION 2 GRANT OF SECURITY INTEREST

- 2.1 To secure payment and performance of all Obligations, Debtor hereby grants to Lender a continuing security interest in, a lien upon and hereby assigns to Lender as security, all of Debtor's right, title and interest, both present and future, in all of its present, owned or held and after-acquired or held real and personal property of whatsoever nature or kind and wheresoever situate including the following property and interests in property of Debtor, whether now owned or hereafter acquired or existing, and in whatever form and wherever located (collectively, the "Collateral"), including:
- (a) Accounts;
 - (b) all present and future contract rights, general intangibles (including tax and duty refunds, Intellectual Property licenses, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents of title, documents, instruments, securities, financial assets and other investment property, letters of credit, bankers' acceptances and guarantees;
 - (c) all present and future monies, securities, credit balances, deposits, deposit accounts and other property of Debtor now or hereafter held or received by or in transit to Lender or its Affiliates or at any other depository or other institution from or for the account of Debtor whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future Liens, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including:
 - (i) rights and remedies under or relating to guarantees, contracts of suretyship, letters of credit and other insurance related to the Collateral;
 - (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party;
 - (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including returned, repossessed and reclaimed goods; and
 - (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;
 - (d) Inventory;
 - (e) Equipment;
 - (f) Records;
 - (g) Investment Property;

- (h) Intellectual Property; and
- (i) all products and proceeds of the foregoing, in any form, including insurance proceeds and any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

2.2 Notwithstanding the foregoing, Collateral shall not include:

- (a) the last day of the term of any lease (but upon the enforcement of Lender's rights hereunder, Lender shall stand possessed of such last day in trust to assign the same to any person acquiring such term);
- (b) the last day of the term of each Intellectual Property license granted to Debtor (but upon the enforcement of Lender's rights hereunder, Lender shall stand possessed of such last day in trust to assign the same to any person acquiring such term); or
- (c) any consumer goods.

2.3 The security interest granted hereby does not and shall not extend to, and Collateral shall not include any agreement, right, franchise, license or permit (the "**Contractual Rights**") to which Debtor is a party or of which Debtor has the benefit, to the extent that the creation of the security interest therein would constitute a breach of the terms of or permit any Person to terminate the contractual rights, but Debtor shall hold its interest therein in trust for Lender and shall assign as security such Contractual Rights to Lender forthwith upon obtaining the consent of the other party thereto. Debtor agrees that it shall, upon the request of Lender, use all commercially reasonable efforts to obtain any consent required to permit any Contractual Rights to be subjected to the security interest granted hereby.

SECTION 3 REPRESENTATIONS AND WARRANTIES

3.1 Debtor hereby represents and warrants to Lender the following (which shall survive the execution and delivery of this Agreement):

- (a) **Credit Agreement.** Each of the representations and/or warranties contained in the Credit Agreement made by Debtor is true and correct in all respects.
- (b) **Survival of Warranties: Cumulative.** All representations and warranties contained in this Agreement or any of the other Financing Agreements to which Debtor is a party shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation under the Credit Agreement and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Debtor shall now or hereafter give, or cause to be given, to Lender.

SECTION 4
AFFIRMATIVE AND NEGATIVE COVENANTS

- 4.1 **Credit Agreement Covenants.** Debtor hereby agrees and covenants to comply with each and every agreement and covenant it makes and/or has made pursuant to the Credit Agreement.
- 4.2 **Delivery of Documents.** Debtor shall deliver to Lender promptly upon request any chattel paper, instruments, certificated securities and documents of title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as Lender may direct.
- 4.3 **Investment Property.** Until the occurrence of an Event of Default and subject to the terms of this Agreement, Debtor is entitled to receive interest and regular cash dividends, vote the Investment Property and give entitlement orders, instructions, directions and other consents, waivers and ratifications in respect of the Investment Property, provided that no such action shall be taken which would impair the validity, perfection or priority of the security interests of Lender hereunder or the value of the Investment Property or which would be inconsistent with or violate the provisions of this Agreement, any Financing Agreement, any other written agreement between Lender and Debtor or any Control Agreement.
- 4.4 **Delivery and Control.** Lender may, in its discretion, require Debtor to do all such acts and things that are necessary or desirable for Lender, Lender's agent or a nominee of Lender to receive delivery of the Investment Property or obtain control of the Investment Property, including any consent of Debtor as a registered owner of Investment Property, an entitlement holder or a futures customer, as the case may be, necessary or desirable for such control to be obtained by Lender. Notwithstanding any such transfer, delivery or control, prior to the occurrence of an Event of Default that is continuing, Section 4.3 shall continue to apply and upon such transfer Lender shall provide Debtor with such proxies and other written authorizations as may be requested by Debtor to enable Debtor to exercise the rights and take the actions described in Section 4.3.
- 4.5 **Non-Performance.** Debtor shall promptly notify Lender of any failure of any account debtor, any securities intermediary in respect of a Securities Account or any futures intermediary in respect of a Futures Account in payment or performance of obligations due to Debtor which may affect the Collateral.
- 4.6 **Further Assurances.** At the request of Lender at any time and from time to time Debtor shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary to evidence, perfect, maintain and enforce the security interests hereunder and, subject to Permitted Liens, the priority thereof in the Collateral, and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements to which it is a party. Where permitted by law, Debtor hereby authorizes Lender to execute and file one or more PPSA, UCC and other financing statements or notices signed only by Lender or Lender's representative.

**SECTION 5
EVENTS OF DEFAULT AND REMEDIES**

- 5.1 **Events of Default.** The occurrence or existence of any Event of Default under the Credit Agreement is referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”.
- 5.2 **Remedies.**
- (a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the PPSA, UCC and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Debtor or any Credit Party, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the PPSA, UCC or other applicable law, are cumulative, not exclusive and enforceable, in Lender’s discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Debtor of any of the Financing Agreements to which Debtor is a party. Lender may, at any time or times, proceed directly against Debtor or any Credit Party to collect the Obligations without prior recourse to the Collateral.
 - (b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation:
 - (i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (other than Obligations in connection with Swap Agreements which may be terminated in accordance with their terms);
 - (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of Debtor;
 - (iii) require Debtor, at Debtor’s expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender;
 - (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral;
 - (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose;

- (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Debtor, which right or equity of redemption is hereby expressly waived and released by Debtor to the extent permitted by applicable law;
- (vii) without limiting clause (iv) above, grant a general, special or other license in respect of any aspect of the Collateral on an exclusive or non-exclusive basis to any Person throughout the world or any part of it and on such terms and on such conditions as Lender, acting reasonably, may consider appropriate;
- (viii) enforce against any licensee or other person all rights and remedies of Debtor with respect to all or any part of the Collateral, and take or refrain from taking any action that Debtor might take with respect to any of those rights and remedies, and for this purpose Lender shall have the exclusive right to enforce or refrain from enforcing those rights and remedies, and may in the name of Debtor and at its expense retain and instruct counsel and initiate any court or other proceeding that Lender considers necessary or expedient;
- (ix) take any step necessary to preserve, maintain or insure the whole or any part of the Collateral or to realize upon any of it or put it in vendable condition, and any amount paid as a result of any taking any such steps shall be a cost the payment of which is secured by this Agreement;
- (x) borrow money and use the Collateral directly or indirectly in carrying on Debtor's business or as security for loans or advances for any such purposes;
- (xi) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with Debtor, account debtors of Debtor, sureties and others as Lender may see fit without prejudice to the liability of Debtor or Lender's right to hold and realize the security interest created under this Agreement. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, 5 days prior notice by Lender to Debtor designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Debtor waives any other notice. In the event Lender institutes an action to recover any

Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Debtor waives the posting of any bond which might otherwise be required;

- (xii) terminate this Agreement;
- (xiii) without limiting the generality of clause (vi) above, Debtor acknowledges that when disposing of any Investment Property, Lender may be unable to effect a public sale of any or all of the Investment Property, or to sell any or all of the securities as a control block sale at more than a stated premium to the "market price" of any shares, stock, instruments, warrants, bonds, debenture stock and other securities forming part of the Investment Property, by reason of certain prohibitions contained in the *Securities Act* (Ontario) and applicable laws of other jurisdictions, but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Investment Property as principal and to comply with other resale restrictions provided for in the *Securities Act* (Ontario) and other applicable laws. Debtor acknowledges and agrees that any such private sale may result in prices and other terms less favourable to the seller than if such sale were a public sale or a control block sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by reason of its being a private sale. Lender shall be under no obligation to delay a sale of any of the Investment Property for the period of time necessary to permit the issuer of such securities to qualify such Investment Property for public sale under the *Securities Act* (Ontario) or under applicable securities laws of other jurisdictions, even if the issuer would agree to do so, or to permit a prospective purchaser to make a formal offer to all or substantially all holders of any class of securities forming any part of the Investment Property;
- (xiv) Lender may elect by written notice to Debtor and to an officer of the issuer of the Investment Property or to any securities intermediary or futures intermediary in respect of the Investment Property, as may be applicable, that all or part of the rights of Debtor in the Investment Property including, the right to vote, give consents, entitlement orders, instructions, directions, waivers or ratifications and take other actions and receive interest or regular cash dividends, shall cease, and upon such election all such rights shall become vested in Lender or as it may direct; and
- (xv) require that the Investment Property be registered in the name of Lender or as it may direct, that delivery of the Investment Property be made to Lender or that control of the Investment Property be obtained by Lender, or as it may direct, in accordance with the provisions of the STA and Lender may then, without notice, exercise any and all voting rights at any meeting of the issuers thereof and exercise any and all rights, privileges or

options pertaining to the Investment Property without the consent of Debtor as if it were the absolute owner, including the right to exchange at its discretion, any and all of the Investment Property upon the issuer's amalgamation, merger, consolidation, reorganization, recapitalization, restructuring or other readjustment or upon the issuer's exercise of any right, privilege or option pertaining to any of the Investment Property and to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar, securities intermediary, futures intermediary, clearing agency or other designated agency upon such terms and conditions as it may determine.

- (c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Debtor shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for in the Credit Agreement and all costs and expenses of enforcement including reasonable legal costs and expenses.
- (d) Lender may appoint, remove and reappoint any person or persons, including an employee or agent of Lender to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of Debtor and not of Lender, and Lender shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Lender, all money received by such Receiver shall be received in trust for and paid to Lender. Such Receiver shall have all of the powers and rights of Lender described in this Section 5.2. Lender may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.
- (e) Where Lender realizes upon any of the Collateral, and in particular upon any of the Intellectual Property, Debtor shall provide without charge its know-how and expertise relating to the use and application of the Collateral, and in particular shall instruct Lender, and any purchaser of the Collateral designated by Lender, concerning any Intellectual Property including any confidential information or trade secrets of Debtor.
- (f) Debtor shall pay all costs, charges and expenses incurred by Lender or any Receiver or any nominee whether directly or for services rendered (including reasonable solicitor's costs on a solicitor and his own client basis, auditor's costs, other legal expenses and Receiver remuneration) in enforcing any Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

SECTION 6
JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

6.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

- (a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to principles of conflicts of laws).
- (b) Debtor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under any of the Financing Agreements or in any way connected with or related or incidental to the dealings of Debtor and Lender in respect of any of the Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Debtor or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Debtor or its property).
- (c) To the extent permitted by law, Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed 5 days after the same shall have been so deposited in the Canadian mails, or, at Lender's option, by service upon Debtor in any other manner provided under the rules of any such courts. Within 30 days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Lender against Debtor for the amount of the claim and other relief requested.
- (d) DEBTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER ANY OF THE FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF DEBTOR OR LENDER IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. DEBTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND

THAT DEBTOR OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF DEBTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

- (e) Lender shall not have any liability to Debtor (whether in tort, contract, equity or otherwise) for losses suffered by Debtor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by any Financing Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender that the losses were the result of acts or omissions constituting gross negligence or willful misconduct.
- (f) Debtor hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Lender from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Debtor waives the posting of any bond otherwise required of Lender in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Lender, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction or any Financing Agreement.

6.2 **Waiver of Notices.** Debtor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Debtor which Lender may elect to give shall entitle Debtor to any other or further notice or demand in the same, similar or other circumstances.

6.3 **Amendments and Waivers.** Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of Debtor. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

6.4 **Waiver of Counterclaims.** Debtor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature in any action or proceeding with respect to this

Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

6.5 **Indemnifications.**

- (a) Debtor shall indemnify and hold Lender and its directors, agents, employees and counsel harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel, other than losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them as a result of their own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.
- (b) In addition to, and without limiting the provisions of clause (a) above, Debtor shall indemnify and hold Lender and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to any and all claims that the Intellectual Property infringes, misappropriates, violates or interferes with any rights of a third party including any patent, trade-mark, confidential information, trade secret, copyright, moral rights, personality rights, privacy rights, publicity rights or semi-conductor chip rights, including amounts paid in settlement, court costs, and the fees and expenses of counsel, other than losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them as a result of their own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.
- (c) To the extent that the undertakings to indemnify, pay and hold harmless set forth in this Section 6.5 may be unenforceable because they violate any law or public policy, Debtor shall pay the maximum portion which it is permitted to pay under applicable law to Lender and the other indemnified parties in satisfaction of indemnified matters under this Section.
- (d) The foregoing indemnities shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Credit Agreement.

**SECTION 7
MISCELLANEOUS**

- 7.1 **Notices.** All notices, requests and demands hereunder shall be in writing and delivered (and deemed to have been made if made) in accordance with the notice provisions of the Credit Agreement.
- 7.2 **Judgment Currency.** To the extent permitted by applicable law, the obligations of Debtor in respect of any amount due under this Agreement and other Financing Agreements to which Debtor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) and Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Lender receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Debtor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Debtor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section 7.2, continue in full force and effect.
- 7.3 **Partial Invalidity.** If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
- 7.4 **Successors.** This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon Debtor and its successors and permitted assigns and inure to the benefit of and be enforceable by Lender and its successors and assigns, except that Debtor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein to which it is a party without the prior written consent of Lender. Lender may assign its rights under any or all of the Financing Agreements and/or any other document referred to herein or therein to which it is a party in accordance with the Credit Agreement.
- 7.5 **Entire Agreement.** This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

- 7.6 **Attachment.** The security interest created hereby is intended to attach when this Agreement is executed by Debtor and delivered to Lender.
- 7.7 **Headings.** The division of this Agreement into Sections and the insertion of headings are for convenience only and shall not affect the construction or interpretation of this Agreement.
- 7.8 **Acknowledgement.** Debtor acknowledges receipt of a copy of this Agreement.
- 7.9 **Credit Agreement Paramount.** In the event of any conflict, inconsistency, ambiguity or difference between the provisions of this Agreement and of the Credit Agreement, then the provisions of the Credit Agreement shall govern and be paramount, and any such provision in this Agreement shall be deemed to be amended to the extent necessary to eliminate any such conflict, inconsistency, ambiguity or difference. Notwithstanding the foregoing, if there is any right or remedy of Lender set out in this Agreement or any part thereof that is not set out or provided for in the Credit Agreement, such additional right or remedy shall not constitute a conflict, inconsistency, ambiguity or difference.
- 7.10 **Termination.** This Agreement shall be terminated by written agreement made between Debtor and Lender at any time when all of the Obligations have been fully paid or satisfied and the Credit Agreement terminated.
- 7.11 **Counterparts and Facsimile.** This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement. The delivery of a facsimile or pdf copy of an executed counterpart of this Agreement shall be deemed to be valid execution and delivery of this Agreement, but the party delivering a facsimile or pdf copy shall deliver to the other party an original copy of this Agreement as soon as possible after delivering the facsimile or pdf copy.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Debtor has executed this Agreement as of the date first written above.

KRAUS CANADA LTD., on behalf of itself
and in its capacity as the general partner of
KRAUS CANADA LP

By: 
Name: PATRICIA SAWTYS
Authorized Signing Officer

[Signature Page Canadian form General Security Agreement Kraus Canada and KCLP]

Appendix "D"
Kraus USA Security

GUARANTY AND SECURITY AGREEMENT

This **GUARANTY AND SECURITY AGREEMENT** (this "Agreement"), dated as of ~~July~~^{August} 6, 2013, among the Persons listed on the signature pages hereof as "Grantors" and those additional entities that hereafter become parties hereto by executing the form of Joinder attached hereto as Annex 1 (each, a "Grantor" and collectively, the "Grantors"), and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and agent for its affiliates and assigns under the Credit Agreement (as defined below) (the "Lender").

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement of even date herewith (as amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among Lender, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership, Kraus Carpet LP, an Ontario limited partnership, Kraus USA Inc., a Delaware corporation, Barrett Carpet Mills Inc., a Georgia corporation, and any additional entities that hereafter become borrowers under the Credit Agreement (each, a "Borrower" and collectively, the "Borrowers") and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, Lender has agreed to act as agent for the benefit of the Lender-Related Persons in connection with the transactions contemplated by the Credit Agreement and this Agreement; and

WHEREAS, in order to induce Lender to enter into the Credit Agreement and the other Financing Agreements, to induce the Bank Product Providers to enter into the Bank Product Agreements, and to induce the Lender and the Bank Product Providers to make financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements and the Bank Product Agreements, (a) each Grantor that is not a Borrower has agreed to guaranty the Guaranteed Obligations, and (b) each Grantor has agreed to grant to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, a continuing security interest in and to the Collateral in order to secure the prompt and complete payment, observance and performance of, among other things, the Secured Obligations; and

WHEREAS, each Grantor is either a Borrower or an Affiliate or a Subsidiary of a Borrower and, as such, will benefit by virtue of the financial accommodations extended to Borrowers by Lender and the Bank Product Providers.

NOW, THEREFORE, for and in consideration of the recitals made above and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions; Construction.

(a) All initially capitalized terms used herein (including in the preamble and recitals hereof) without definition shall have the meanings ascribed thereto in the Credit Agreement (including Schedule 1.1 thereto). Any terms (whether capitalized or lower case) used in this Agreement that are

defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein or in the Credit Agreement; provided that to the extent that the Code is used to define any term used herein and if such term is defined differently in different Articles of the Code, the definition of such term contained in Article 9 of the Code shall govern. In addition to those terms defined elsewhere in this Agreement, as used in this Agreement, the following terms shall have the following meanings:

(i) “Account” means an account (as that term is defined in Article 9 of the Code).

(ii) “Account Debtor” means an account debtor (as that term is defined in the Code).

(iii) “Agreement” has the meaning specified therefor in the preamble to this Agreement

(iv) “Bank Products” means any one or more of the following financial products or accommodations extended to any Credit Party by a Bank Product Provider: (a) Cash Management Products, or (b) transactions under Swap Agreements.

(v) “Bank Product Agreements” means those agreements entered into from time to time by a Credit Party with a Bank Product Provider in connection with the obtaining of any of the Bank Products.

(vi) “Bank Product Collateralization” means providing cash collateral (pursuant to documentation satisfactory to Lender) to be held by Lender for the benefit of the Bank Product Providers (other than the Swap Providers) in an amount determined by Lender as sufficient to satisfy the reasonably estimated credit exposure with respect to the then existing Bank Product Obligations (other than Hedge Obligations).

(vii) “Bank Product Obligations” means (a) all obligations, liabilities, reimbursement obligations, fees, or expenses owing by any Loan Party to any Bank Product Provider pursuant to or evidenced by a Bank Product Agreement and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, (b) all Hedge Obligations, and (c) all amounts that Lender is obligated to pay to a Bank Product Provider as a result of Lender purchasing participations from, or executing guarantees or indemnities or reimbursement obligations to, a Bank Product Provider with respect to the Bank Products provided by such Bank Product Provider to a Loan Party; provided, in order for any item described in clauses (a) (b), or (c) above, as applicable, to constitute “Bank Product Obligations”, if the applicable Bank Product Provider is any Person other than Wells Fargo or its Affiliates, then the applicable Bank Product must have been provided on or after the Closing Date and Lender shall have received a Bank Product Provider Agreement within 10 days after the date of the provision of the applicable Bank Product to a Loan Party.

(viii) “Bank Product Provider” means Lender or any of its Affiliates, including each of the foregoing in its capacity, if applicable, as a Hedge Provider; provided, that no such Person (other than Wells Fargo or its Affiliates) shall constitute a Bank Product Provider with respect to a Bank Product unless and until Lender receives a Bank Product Provider Agreement from such Person and with respect to the applicable Bank Product within 10 days after the provision of such Bank Product to a Loan Party; provided further, that if, at any time, a Lender ceases to be a Lender under the Agreement, then, from and after the date on which it ceases to be a Lender thereunder, neither it nor any of its Affiliates shall constitute Bank Product Providers and the obligations with respect to Bank Products provided by such former Lender or any of its Affiliates shall no longer constitute Bank Product Obligations.

(ix) “Bankruptcy Code” means title 11 of the United States Code, as in effect from time to time.

(x) “Books” means books and records (including each Grantor’s Records indicating, summarizing, or evidencing such Grantor’s assets (including the Collateral) or liabilities, each Grantor’s Records relating to such Grantor’s business operations or financial condition, and each Grantor’s goods or General Intangibles related to such information).

(xi) “Borrower” and “Borrowers” has the meaning specified therefor in the recitals to this Agreement.

(xii) “Cash Equivalents” has the meaning specified therefor in the Credit Agreement.

(xiii) “Cash Management Products” has the meaning specified therefor in the Credit Agreement.

(xiv) “Chattel Paper” means chattel paper (as that term is defined in the Code), and includes tangible chattel paper and electronic chattel paper.

(xv) “Code” means the New York Uniform Commercial Code, as in effect from time to time; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, priority, or remedies with respect to Lender’s Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies.

(xvi) “Collateral” has the meaning specified therefor in Section 3.

(xvii) “Collections” means all cash, checks, notes, instruments, and other items of payment (including insurance Proceeds, cash Proceeds of asset sales, rental Proceeds, and tax refunds).

(xviii) “Commercial Tort Claims” means commercial tort claims (as that term is defined in the Code), and includes those commercial tort claims listed on Schedule 1.

(xix) “Commodity Exchange Act” means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

(xx) “Control Agreement” means a control agreement, in form and substance reasonably satisfactory to Lender, executed and delivered by a Credit Party or any Subsidiary of a Credit Party, Lender, and the applicable securities intermediary (with respect to a securities account) or bank (with respect to a Deposit Account and Controlled Account) or issuer (with respect to uncertificated securities).

(xxi) “Controlled Account” has the meaning specified therefor in Section 7(k).

(xxii) “Controlled Account Agreements” means those certain cash management agreements, in form and substance reasonably satisfactory to Lender, each of which is executed and delivered by a Grantor, Lender, and one of the Controlled Account Banks.

(xxiii) “Controlled Account Bank” has the meaning specified therefor in Section 7(k).

(xxiv) “Copyrights” means any and all rights in any works of authorship, including (A) copyrights and moral rights, (B) copyright registrations and recordings thereof and all applications in connection therewith including those listed on Schedule 2, (C) income, license fees, royalties, damages, and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past, present, or future infringements thereof, (D) the right to sue for past, present, and future infringements thereof, and (E) all of each Grantor’s rights corresponding thereto throughout the world.

(xxv) “Copyright Security Agreement” means each Copyright Security Agreement executed and delivered by Grantors, or any of them, and Lender, in substantially the form of Exhibit A.

(xxvi) “Credit Agreement” has the meaning specified therefor in the recitals to this Agreement.

(xxvii) “Credit Parties” has the meaning specified therefor in the Credit Agreement.

(xxviii) “Deposit Account” means a deposit account (as that term is defined in the Code).

(xxix) “Equipment” means equipment (as that term is defined in the Code).

(xxx) “Equity Interests” means, with respect to a Person, all of the shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in such Person, whether voting or nonvoting, including capital stock (or other ownership or profit interests or units), preferred stock, or any other “equity security” (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the United States Securities and Exchange Commission and any successor thereto under the Securities Exchange Act of 1934, as amended from time to time, and any successor statute).

(xxxi) “Event of Default” has the meaning specified therefor in the Credit Agreement.

(xxxii) “Excluded Swap Obligation” means, with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the Guaranty of such Guarantor of, or the grant by such Guarantor of a security interest to secure, such Swap Obligation (or any Guaranty thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of such Guarantor’s failure for any reason to constitute an “eligible contract participant” as defined in the Commodity Exchange Act and the regulations thereunder at the time the Guaranty of such Guarantor or the grant of such security interest becomes effective with respect to such Swap Obligation. If a Swap Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such Guaranty or security interest is or becomes illegal.

(xxxiii) “Farm Products” means farm products (as that term is defined in the Code)

(xxxiv) “Financing Agreements” has the meaning specified therefor in the Credit Agreement.

(xxxv) “Fixtures” means fixtures (as that term is defined in the Code).

(xxxvi) “Foreclosed Grantor” has the meaning specified therefor in Section 2(i)(iii).

(xxxvii) “General Intangibles” means general intangibles (as that term is defined in the Code), and includes payment intangibles, software, contract rights, rights to payment, rights under Swap Agreements (including the right to receive payment on account of the termination (voluntarily or involuntarily) of such Swap Agreements), rights arising under common law, statutes, or regulations, choses or things in action, goodwill, Intellectual Property, Intellectual Property Licenses, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, including Intellectual Property Licenses, infringement claims, pension plan refunds, pension plan refund claims, insurance premium rebates, tax refunds, and tax refund claims, interests in a partnership or limited liability company which do not constitute a security under Article 8 of the Code, and any other personal property other than Commercial Tort Claims, money, Accounts, Chattel Paper, Deposit Accounts, goods, Investment Property, Negotiable Collateral, and oil, gas, or other minerals before extraction.

(xxxviii) “Grantor” and “Grantors” have the respective meanings specified therefor in the preamble to this Agreement.

(xxxix) “Guarantied Obligations” means all of the Obligations (including any Bank Product Obligations) now or hereafter existing, whether for principal, interest (including any interest that accrues after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), fees (including the fees provided for in the Fee Letter), Lender Expenses (including any fees or expenses that accrue after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), or otherwise, and any and all expenses (including reasonable counsel fees and expenses) incurred by Lender, any Bank Product Provider, or any other Lender-Related Person (or any of them) in enforcing any rights under the any of the Financing Agreements. Without limiting the generality of the foregoing, Guarantied Obligations shall include all amounts that constitute part of the Guarantied Obligations and would be owed by Borrowers to Lender, any Bank Product Provider or any other Lender-Related Person but for the fact that they are unenforceable or not allowable, including due to the existence of a bankruptcy, reorganization, other Insolvency Proceeding or similar proceeding involving Borrowers or any guarantor; provided that, anything to the contrary contained in the foregoing notwithstanding, the Guarantied Obligations shall exclude any Excluded Swap Obligation.

(xl) “Guarantor” means each Grantor that is not a Borrower.

(xli) “Guaranty” means the guaranty set forth in Section 2 hereof.

(xlii) “Hedge Obligations” means any and all obligations or liabilities, whether absolute or contingent, due or to become due, now existing or hereafter arising, of a Loan Party arising under, owing pursuant to, or existing in respect of Swap Agreements entered into with one or more of the Swap Providers.

(xliii) “Insolvency Proceeding” means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state, provincial or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

(xliv) “Intellectual Property” means any and all Patents, Copyrights, Trademarks, trade secrets, know-how, inventions (whether or not patentable), algorithms, software programs (including source code and object code), processes, product designs, industrial designs, blueprints, drawings, data, customer lists, URLs and domain names, specifications, documentations, reports, catalogs, literature, and any other forms of technology or proprietary information of any kind, including all rights therein and all applications for registration or registrations thereof.

(xlv) “Intellectual Property Licenses” means, with respect to any Person (the “Specified Party”), (A) any licenses or other similar rights provided to the Specified Party in or with respect to Intellectual Property owned or controlled by any other Person, and (B) any licenses or other similar rights provided to any other Person in or with respect to Intellectual Property owned or controlled by the Specified Party, in each case, including (x) any software license agreements (other than license agreements for commercially available off-the-shelf software that is generally available to the public which have been licensed to a Grantor pursuant to end-user licenses), (y) the license agreements listed on Schedule 3, and (z) the right to use any of the licenses or other similar rights described in this definition in connection with the enforcement of the Lender’s rights under the Financing Agreements.

(xlvi) “Inventory” means inventory (as that term is defined in the Code).

(xlvii) “Investment Property” means (A) any and all investment property (as that term is defined in the Code), and (B) any and all of the following (regardless of whether classified as investment property under the Code): all Pledged Interests, Pledged Operating Agreements, and Pledged Partnership Agreements.

(xlviii) “Joinder” means each Joinder to this Agreement executed and delivered by Lender and each of the other parties listed on the signature pages thereto, in substantially the form of Annex 1.

(xlix) “Lender” has the meaning specified therefor in the preamble to this Agreement.

(l) “Lender-Related Persons” means Lender, together with its Affiliates, including in their capacity as a Bank Product Provider, officers, directors, employees, legal counsel, and agents.

(li) “Lien” has the meaning specified therefor in the Credit Agreement.

(lii) “Negotiable Collateral” means letters of credit, letter-of-credit rights, instruments, promissory notes, drafts and documents (as each such term is defined in the Code).

(liii) “Obligations” has the meaning specified therefor in the Credit Agreement.

(liv) “Patents” means patents and patent applications, including (A) the patents and patent applications listed on Schedule 4, (B) all continuations, divisionals, continuations-in-

part, re-examinations, reissues, and renewals thereof and improvements thereon, (C) all income, royalties, damages and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past, present, or future infringements thereof, (D) the right to sue for past, present, and future infringements thereof, and (E) all of each Grantor's rights corresponding thereto throughout the world.

(lv) "Patent Security Agreement" means each Patent Security Agreement executed and delivered by Grantors, or any of them, and Lender, in substantially the form of Exhibit B.

(lvi) "Permitted Investments" means investment permitted pursuant to Section 9.10 of the Credit Agreement.

(lvii) "Permitted Liens" has the meaning specified therefor in the Credit Agreement.

(lviii) "Person" has the meaning specified therefor in the Credit Agreement.

(lix) "Pledged Companies" means each Person listed on Schedule 5 as a "Pledged Company", together with each other Person, all or a portion of whose Equity Interests are acquired or otherwise owned by a Grantor after the Closing Date.

(lx) "Pledged Interests" means all of each Grantor's right, title and interest in and to all of the Equity Interests now owned or hereafter acquired by such Grantor, regardless of class or designation, including in each of the Pledged Companies, and all substitutions therefor and replacements thereof, all proceeds thereof and all rights relating thereto, also including any certificates representing the Equity Interests, the right to receive any certificates representing any of the Equity Interests, all warrants, options, share appreciation rights and other rights, contractual or otherwise, in respect thereof and the right to receive all dividends, distributions of income, profits, surplus, or other compensation by way of income or liquidating distributions, in cash or in kind, and all cash, instruments, and other property from time to time received, receivable, or otherwise distributed in respect of or in addition to, in substitution of, on account of, or in exchange for any or all of the foregoing.

(lxi) "Pledged Interests Addendum" means a Pledged Interests Addendum substantially in the form of Exhibit C.

(lxii) "Pledged Notes" has the meaning specified therefor in Section 6(i).

(lxiii) "Pledged Operating Agreements" means all of each Grantor's rights, powers, and remedies under the limited liability company operating agreements of each of the Pledged Companies that are limited liability companies.

(lxiv) "Pledged Partnership Agreements" means all of each Grantor's rights, powers, and remedies under the partnership agreements of each of the Pledged Companies that are partnerships.

(lxv) "Proceeds" has the meaning specified therefor in Section 3.

(lxvi) "PTO" means the United States Patent and Trademark Office.

(lxvii) "Qualified ECP Guarantor" means, in respect of any Swap Obligation, each Grantor that has total assets exceeding \$10,000,000 at the time the relevant guaranty, keepwell, or

grant of the relevant security interest becomes effective with respect to such Swap Obligation or such other person as constitutes an “eligible contract participant” under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another person to qualify as an “eligible contract participant” at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

(lxviii) “Real Property” means any estates or interests in real property now owned or hereafter acquired by any Grantor or any Subsidiary of any Grantor and the improvements thereto.

(lxix) “Record” means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

(lxx) “Secured Obligations” means each and all of the following: (A) all of the present and future obligations of each of the Grantors arising from, or owing under or pursuant to, this Agreement (including the Guaranty), the Credit Agreement, or any of the other Financing Agreements, (B) all Bank Product Obligations, and (C) all other Obligations of Borrowers and all other Guaranteed Obligations of each Guarantor (including, in the case of each of clauses (A), (B) and (C), reasonable attorneys fees and expenses and any interest, fees, or expenses that accrue after the filing of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any Insolvency Proceeding); provided that, anything to the contrary contained in the foregoing notwithstanding, the Secured Obligations of the Grantors shall exclude any Excluded Swap Obligation.

(lxxi) “Securities Account” means a securities account (as that term is defined in the Code).

(lxxii) “Security Interest” has the meaning specified therefor in Section 3.

(lxxiii) “Supporting Obligations” means supporting obligations (as such term is defined in the Code), and includes letters of credit and guaranties issued in support of Accounts, Chattel Paper, documents, General Intangibles, instruments or Investment Property.

(lxxiv) “Swap Agreement” has the meaning specified therefor in the Credit Agreement.

(lxxv) “Swap Obligation” means, with respect to any Grantor, any obligation to pay or perform under any agreement, contract or transaction that constitutes a “swap” within the meaning of section 1a(47) of the Commodity Exchange Act.

(lxxvi) “Swap Provider” means any Lender or any of its Affiliates; provided, that no such Person (other than Wells Fargo or its Affiliates) shall constitute a Hedge Provider unless and until Lender consents thereto pursuant to Section 5 of the Credit Agreement and Lender receives a Bank Product Provider Agreement from such Person and with respect to the applicable Swap Agreement within 10 days after the execution and delivery of such Swap Agreement with a Loan Party; provided further, that if, at any time, a Lender ceases to be a Lender under the Agreement, then, from and after the date on which it ceases to be a Lender thereunder, neither it nor any of its Affiliates shall constitute Hedge Providers and the obligations with respect to Swap Agreements entered into with such former Lender or any of its Affiliates shall no longer constitute Hedge Obligations.

(lxxvii) “Trademarks” means any and all trademarks, trade names, registered trademarks, trademark applications, service marks, registered service marks and service mark

applications, including (A) the trade names, registered trademarks, trademark applications, registered service marks and service mark applications listed on Schedule 6, (B) all renewals thereof, (C) all income, royalties, damages and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past or future infringements or dilutions thereof, (D) the right to sue for past, present and future infringements and dilutions thereof, (E) the goodwill of each Grantor's business symbolized by the foregoing or connected therewith, and (F) all of each Grantor's rights corresponding thereto throughout the world.

(lxxviii) "Trademark Security Agreement" means each Trademark Security Agreement executed and delivered by Grantors, or any of them, and Lender, in substantially the form of Exhibit D.

(lxxix) "URL" means "uniform resource locator," an internet web address.

(lxxx) "VIN" has the meaning specified therefor in Section 5(h).

(b) Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms "includes" and "including" are not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein or in the Credit Agreement). The words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties. Any reference herein to the satisfaction, repayment, or payment in full of the Secured Obligations or the Guaranteed Obligations shall mean (i) the payment or repayment in full in immediately available funds of (A) the principal amount of, and interest accrued with respect to, all outstanding Loans, together with the payment of any premium applicable to the repayment of the Loans, (B) all Lender Expenses that have accrued regardless of whether demand has been made therefor, (C) all fees or charges that have accrued hereunder or under any other Financing Agreement (including the Letter of Credit Fee and the Unused Line Fee), (ii) in the case of contingent reimbursement obligations with respect to Letters of Credit, providing Letter of Credit Collateralization, (iii) in the case of obligations with respect to Bank Products (other than Hedge Obligations), providing Bank Product Collateralization, (iv) the receipt by Lender of cash collateral in order to secure any other contingent Secured Obligations or Guaranteed Obligations for which a claim or demand for payment has been made at such time or in respect of matters or circumstances known to Lender or a Lender at the time that are reasonably expected to result in any loss, cost, damage or expense (including attorneys fees and legal expenses), such cash collateral to be in such amount as Lender reasonably determines is appropriate to secure such contingent Secured Obligations or Guaranteed Obligations, (v) the payment or repayment in full in immediately available funds of all other Secured Obligations or Guaranteed Obligations (as the case may be) (including the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Swap Agreements provided by Swap Providers) other than (A) unasserted contingent indemnification obligations, (B) any Bank Product Obligations (other than Hedge Obligations) that, at such time, are allowed by the applicable Bank Product Provider to remain outstanding without being required to be repaid or cash collateralized, and (C) any Hedge

Obligations that, at such time, are allowed by the applicable Swap Provider to remain outstanding without being required to be repaid, and (vi) the termination of all of the Commitments of the Lenders. Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein shall be satisfied by the transmission of a Record.

(c) All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. Guaranty.

(a) In recognition of the direct and indirect benefits to be received by Guarantors from the proceeds of the Revolving Credit Facility and the Term Loan, the issuance of the Letters of Credit, and the entering into of the Bank Product Agreements and by virtue of the financial accommodations to be made to Borrowers, each of the Guarantors, jointly and severally, hereby unconditionally and irrevocably guarantees as a primary obligor and not merely as a surety the full and prompt payment when due, whether upon maturity, acceleration, or otherwise, of all of the Guaranteed Obligations. If any or all of the Obligations constituting Guaranteed Obligations becomes due and payable, each of the Guarantors, unconditionally and irrevocably, and without the need for demand, protest, or any other notice or formality, promises to pay such indebtedness to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, together with any and all expenses (including Lender Expenses) that may be incurred by Lender, any Bank Product Provider or any other Lender-Related Person in demanding, enforcing, or collecting any of the Guaranteed Obligations (including the enforcement of any collateral for such Guaranteed Obligations or any collateral for the obligations of the Guarantors under this Guaranty). If claim is ever made upon Lender, any Bank Product Provider or any other Lender-Related Person for repayment or recovery of any amount or amounts received in payment of or on account of any or all of the Guaranteed Obligations and any of Lender or any Bank Product Provider or any other Lender-Related Person repays all or part of said amount by reason of (i) any judgment, decree, or order of any court or administrative body having jurisdiction over such payee or any of its property, or (ii) any settlement or compromise of any such claim effected by such payee with any such claimant (including Borrowers or any Guarantor), then and in each such event, each of the Guarantors agrees that any such judgment, decree, order, settlement, or compromise shall be binding upon the Guarantors, notwithstanding any revocation (or purported revocation) of this Guaranty or other instrument evidencing any liability of any Grantor, and the Guarantors shall be and remain liable to the aforesaid payees hereunder for the amount so repaid or recovered to the same extent as if such amount had never originally been received by any such payee.

(b) Additionally, each of the Guarantors unconditionally and irrevocably guarantees the payment of any and all of the Guaranteed Obligations to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, whether or not due or payable by any Credit Party upon the occurrence of any of the events specified in Section 8.4 or 8.5 of the Credit Agreement, and irrevocably and unconditionally promises to pay such indebtedness to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, without the requirement of demand, protest, or any other notice or other formality, in lawful money of the United States.

(c) The liability of each of the Guarantors hereunder is primary, absolute, and unconditional, and is independent of any security for or other guaranty of the Guaranteed Obligations, whether executed by any other Guarantor or by any other Person, and the liability of each of the Guarantors hereunder shall not be affected or impaired by (i) any payment on, or in reduction of, any such other guaranty or undertaking, (ii) any dissolution, termination, or increase, decrease, or change in personnel by any Grantor, (iii) any payment made to Lender, any Bank Product Provider, or any other

Lender-Related Person on account of the Obligations which Lender, such Bank Product Provider or such other Lender-Related Person repays to any Grantor pursuant to court order in any bankruptcy, reorganization, arrangement, moratorium or other debtor relief proceeding (or any settlement or compromise of any claim made in such a proceeding relating to such payment), and each of the Guarantors waives any right to the deferral or modification of its obligations hereunder by reason of any such proceeding, or (iv) any action or inaction by Lender, any Bank Product Provider, or any other Lender-Related Person, or (v) any invalidity, irregularity, avoidability, or unenforceability of all or any part of the Obligations or of any security therefor.

(d) This Guaranty includes all present and future Guaranteed Obligations including any under transactions continuing, compromising, extending, increasing, modifying, releasing, or renewing the Guaranteed Obligations, changing the interest rate, payment terms, or other terms and conditions thereof, or creating new or additional Guaranteed Obligations after prior Guaranteed Obligations have been satisfied in whole or in part. To the maximum extent permitted by law, each Guarantor hereby waives any right to revoke this Guaranty as to future Guaranteed Obligations. If such a revocation is effective notwithstanding the foregoing waiver, each Guarantor acknowledges and agrees that (i) no such revocation shall be effective until written notice thereof has been received by Lender, (ii) no such revocation shall apply to any Guaranteed Obligations in existence on the date of receipt by Lender of such written notice (including any subsequent continuation, extension, or renewal thereof, or change in the interest rate, payment terms, or other terms and conditions thereof), (iii) no such revocation shall apply to any Guaranteed Obligations made or created after such date to the extent made or created pursuant to a legally binding commitment of any Lender-Related Persons or any Bank Product Provider in existence on the date of such revocation, (iv) no payment by any Guarantor, any Borrower, or from any other source, prior to the date of Lender's receipt of written notice of such revocation shall reduce the maximum obligation of such Guarantor hereunder, and (v) any payment by Borrowers or from any source other than such Guarantor subsequent to the date of such revocation shall first be applied to that portion of the Guaranteed Obligations as to which the revocation is effective and which are not, therefore, guaranteed hereunder, and to the extent so applied shall not reduce the maximum obligation of such Guarantor hereunder. This Guaranty shall be binding upon each Guarantor, its successors and assigns and inure to the benefit of and be enforceable by Lender (for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons) and its successors, transferees, or assigns.

(e) The guaranty by each of the Guarantors hereunder is a guaranty of payment and not of collection. The obligations of each of the Guarantors hereunder are independent of the obligations of any other Guarantor or Grantor or any other Person and a separate action or actions may be brought and prosecuted against one or more of the Guarantors whether or not action is brought against any other Guarantor or Grantor or any other Person and whether or not any other Guarantor or Grantor or any other Person be joined in any such action or actions. Each of the Guarantors waives, to the fullest extent permitted by law, the benefit of any statute of limitations affecting its liability hereunder or the enforcement hereof. Any payment by any Grantor or other circumstance which operates to toll any statute of limitations as to any Grantor shall operate to toll the statute of limitations as to each of the Guarantors.

(f) Each of the Guarantors authorizes Lender, the other Lender-Related Persons, and the Bank Product Providers without notice or demand, and without affecting or impairing its liability hereunder, from time to time to:

(i) change the manner, place, or terms of payment of, or change or extend the time of payment of, renew, increase, accelerate, or alter: (A) any of the Obligations (including any increase or decrease in the principal amount thereof or the rate of interest or fees thereon); or (B) any

security therefor or any liability incurred directly or indirectly in respect thereof, and this Guaranty shall apply to the Obligations as so changed, extended, renewed, or altered;

(ii) take and hold security for the payment of the Obligations and sell, exchange, release, impair, surrender, realize upon, collect, settle, or otherwise deal with in any manner and in any order any property at any time pledged or mortgaged to secure the Obligations or any of the Guaranteed Obligations (including any of the obligations of all or any of the Guarantors under this Guaranty) incurred directly or indirectly in respect thereof or hereof, or any offset on account thereof;

(iii) exercise or refrain from exercising any rights against any Grantor;

(iv) release or substitute any one or more endorsers, guarantors, any Grantor, or other obligors;

(v) settle or compromise any of the Obligations, any security therefor, or any liability (including any of those of any of the Guarantors under this Guaranty) incurred directly or indirectly in respect thereof or hereof, and may subordinate the payment of all or any part thereof to the payment of any liability (whether due or not) of any Grantor to its creditors;

(vi) apply any sums by whomever paid or however realized to any liability or liabilities of any Grantor to Lender, any Bank Product Provider, or any other Lender-Related Person regardless of what liability or liabilities of such Grantor remain unpaid;

(vii) consent to or waive any breach of, or any act, omission, or default under, this Agreement, any other Financing Agreement, any Bank Product Agreement, or any of the instruments or agreements referred to herein or therein, or otherwise amend, modify, or supplement this Agreement, any other Financing Agreement, any Bank Product Agreement, or any of such other instruments or agreements; or

(viii) take any other action that could, under otherwise applicable principles of law, give rise to a legal or equitable discharge of one or more of the Guarantors from all or part of its liabilities under this Guaranty.

(g) It is not necessary for Lender, any Bank Product Provider, or any other Lender-Related Person to inquire into the capacity or powers of any of the Guarantors or the officers, directors, partners or agents acting or purporting to act on their behalf, and any Obligations made or created in reliance upon the professed exercise of such powers shall be Guaranteed hereunder.

(h) Each Guarantor jointly and severally guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Financing Agreements, regardless of any law, regulation, or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Lender-Related Persons or any Bank Product Provider with respect thereto. The obligations of each Guarantor under this Guaranty are independent of the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against each Guarantor to enforce such obligations, irrespective of whether any action is brought against any other Guarantor or whether any other Guarantor is joined in any such action or actions. The liability of each Guarantor under this Guaranty shall be absolute and unconditional irrespective of, and each Guarantor hereby irrevocably waives any defense it may now or hereafter have in any way relating to, any or all of the following:

(i) any lack of validity or enforceability of any Financing Agreement or any agreement or instrument relating thereto;

(ii) any change in the time, manner, or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Financing Agreement, including any increase in the Guaranteed Obligations resulting from the extension of additional credit;

(iii) any taking, exchange, release, or non-perfection of any Lien in and to any Collateral, or any taking, release, amendment, waiver of, or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(iv) the existence of any claim, set-off, defense, or other right that any Guarantor may have at any time against any Person, including Lender, any Bank Product Provider, or any other Lender-Related Person;

(v) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Guaranteed Obligations or any security therefor;

(vi) any right or defense arising by reason of any claim or defense based upon an election of remedies by any Lender-Related Persons or any Bank Product Provider including any defense based upon an impairment or elimination of such Guarantor's rights of subrogation, reimbursement, contribution, or indemnity of such Guarantor against any other Grantor or any guarantors or sureties;

(vii) any change, restructuring, or termination of the corporate, limited liability company, or partnership structure or existence of any Grantor; or

(viii) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Grantor or any other guarantor or surety.

(i) Waivers.

(i) Each of the Guarantors waives any right (except as shall be required by applicable statute and cannot be waived) to require Lender, any Bank Product Provider, or any other Lender-Related Person to (i) proceed against any other Grantor or any other Person, (ii) proceed against or exhaust any security held from any other Grantor or any other Person, or (iii) protect, secure, perfect, or insure any security interest or Lien on any property subject thereto or exhaust any right to take any action against any other Grantor, any other Person, or any collateral, or (iv) pursue any other remedy in any Lender-Related Persons' or any Bank Product Provider's power whatsoever. Each of the Guarantors waives any defense based on or arising out of any defense of any Grantor or any other Person, other than payment of the Guaranteed Obligations to the extent of such payment, based on or arising out of the disability of any Grantor or any other Person, or the validity, legality, or unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of any Grantor other than payment of the Obligations to the extent of such payment. Lender may, at the election of the Required Lenders, foreclose upon any Collateral held by Lender by one or more judicial or nonjudicial sales or other dispositions, whether or not every aspect of any such sale is commercially reasonable or otherwise fails to comply with applicable law or may exercise any other right or remedy Lender, any Bank Product Provider, or any other Lender-Related Person may have against any Grantor or any other Person, or any security, in each case, without affecting or impairing in any way the liability of any of the Guarantors hereunder except to the extent the Guaranteed Obligations have been paid.

(ii) Each of the Guarantors waives all presentments, demands for performance, protests and notices, including notices of nonperformance, notices of protest, notices of dishonor, notices of acceptance of this Guaranty, and notices of the existence, creation, or incurring of new or additional Obligations or other financial accommodations. Each of the Guarantors waives notice of any Default or Event of Default under any of the Financing Agreements. Each of the Guarantors assumes all responsibility for being and keeping itself informed of each Grantor's financial condition and assets and of all other circumstances bearing upon the risk of nonpayment of the Obligations and the nature, scope, and extent of the risks which each of the Guarantors assumes and incurs hereunder, and agrees that neither Lender nor any of the other Lender-Related Persons nor any Bank Product Provider shall have any duty to advise any of the Guarantors of information known to them regarding such circumstances or risks.

(iii) To the fullest extent permitted by applicable law, each Guarantor hereby waives: (A) any right to assert against any Lender-Related Persons or any Bank Product Provider, any defense (legal or equitable), set-off, counterclaim, or claim which each Guarantor may now or at any time hereafter have against Borrowers or any other party liable to any Lender-Related Persons or any Bank Product Provider; (B) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Guaranteed Obligations or any security therefor; (C) any right or defense arising by reason of any claim or defense based upon an election of remedies by any Lender-Related Persons or any Bank Product Provider including any defense based upon an impairment or elimination of such Guarantor's rights of subrogation, reimbursement, contribution, or indemnity of such Guarantor against Borrowers or other guarantors or sureties; and (D) the benefit of any statute of limitations affecting such Guarantor's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Guaranteed Obligations shall similarly operate to defer or delay the operation of such statute of limitations applicable to such Guarantor's liability hereunder

(iv) No Guarantor will exercise any rights that it may now or hereafter acquire against any Grantor or any other guarantor that arise from the existence, payment, performance or enforcement of such Guarantor's obligations under this Guaranty, including any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of Lender, any Bank Product Provider, or any other Lender-Related Person against any Grantor or any other guarantor or any Collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including the right to take or receive from any Grantor or any other guarantor, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security solely on account of such claim, remedy or right, unless and until all of the Guaranteed Obligations and all other amounts payable under this Guaranty shall have been paid in full in cash and all of the Commitments have been terminated. If any amount shall be paid to any Guarantor in violation of the immediately preceding sentence, such amount shall be held in trust for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, and shall forthwith be paid to Lender to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of the Credit Agreement, or to be held as Collateral for any Guaranteed Obligations or other amounts payable under this Guaranty thereafter arising. Notwithstanding anything to the contrary contained in this Guaranty, no Guarantor may exercise any rights of subrogation, contribution, indemnity, reimbursement or other similar rights against, and may not proceed or seek recourse against or with respect to any property or asset of, any other Grantor (the "Foreclosed Grantor"), including after payment in full of the Obligations, if all or any portion of the Obligations have been satisfied in connection with an exercise of remedies in respect of the Equity Interests of such Foreclosed Grantor whether pursuant to this Agreement or otherwise.

(v) Each of the Guarantors represents, warrants, and agrees that each of the waivers set forth above is made with full knowledge of its significance and consequences and that if any of such waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective to the maximum extent permitted by law.

(j) Keepwell. Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Grantor to guaranty and otherwise honor all Obligations in respect of Swap Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section 2(j) for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section 2(j), or otherwise under the Financing Agreements, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section shall remain in full force and effect until payment in full of the Guaranteed Obligations. Each Qualified ECP Guarantor intends that this Section 2(j) constitute, and this Section 2(j) shall be deemed to constitute, a “keepwell, support, or other agreement” for the benefit of each other Grantor for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

3. Grant of Security. Each Grantor hereby unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, each of the Bank Product Providers and each of the other Lender-Related Persons, to secure the Secured Obligations, a continuing security interest (hereinafter referred to as the “Security Interest”) in all of such Grantor’s right, title, and interest in and to the following, whether now owned or hereafter acquired or arising and wherever located (the “Collateral”):

- (a) all of such Grantor’s Accounts;
- (b) all of such Grantor’s Books;
- (c) all of such Grantor’s Chattel Paper;
- (d) all of such Grantor’s Commercial Tort Claims;
- (e) all of such Grantor’s Deposit Accounts;
- (f) all of such Grantor’s Equipment;
- (g) all of such Grantor’s Farm Products;
- (h) all of such Grantor’s Fixtures;
- (i) all of such Grantor’s General Intangibles;
- (j) all of such Grantor’s Inventory;
- (k) all of such Grantor’s Investment Property;
- (l) all of such Grantor’s Intellectual Property and Intellectual Property Licenses;
- (m) all of such Grantor’s Negotiable Collateral [(including all of such Grantor’s Pledged Notes)];

(n) all of such Grantor's Pledged Interests (including all of such Grantor's Pledged Operating Agreements and Pledged Partnership Agreements);

(o) all of such Grantor's Securities Accounts;

(p) all of such Grantor's Supporting Obligations;

(q) all of such Grantor's money, Cash Equivalents, or other assets of such Grantor that now or hereafter come into the possession, custody, or control of Lender (or its agent or designee) or any other Lender-Related Person; and

(r) all of the proceeds (as such term is defined in the Code) and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance or Commercial Tort Claims covering or relating to any or all of the foregoing, and any and all Accounts, Books, Chattel Paper, Deposit Accounts, Equipment, Fixtures, General Intangibles, Inventory, Investment Property, Intellectual Property, Negotiable Collateral, Pledged Interests, Securities Accounts, Supporting Obligations, money, or other tangible or intangible property resulting from the sale, lease, license, exchange, collection, or other disposition of any of the foregoing, the proceeds of any award in condemnation with respect to any of the foregoing, any rebates or refunds, whether for taxes or otherwise, and all proceeds of any such proceeds, or any portion thereof or interest therein, and the proceeds thereof, and all proceeds of any loss of, damage to, or destruction of the above, whether insured or not insured, and, to the extent not otherwise included, any indemnity, warranty, or guaranty payable by reason of loss or damage to, or otherwise with respect to any of the foregoing (the "Proceeds"). Without limiting the generality of the foregoing, the term "Proceeds" includes whatever is receivable or received when Investment Property or proceeds are sold, exchanged, collected, or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes proceeds of any indemnity or guaranty payable to any Grantor or Lender from time to time with respect to any of the Investment Property.

4. Security for Secured Obligations. The Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantors, or any of them, to Lender, the Lender, the Bank Product Providers or any of them, but for the fact that they are unenforceable or not allowable (in whole or in part) as a claim in an Insolvency Proceeding involving any Grantor due to the existence of such Insolvency Proceeding.

5. Grantors Remain Liable. Anything herein to the contrary notwithstanding, (a) each of the Grantors shall remain liable under the contracts and agreements included in the Collateral, including the Pledged Operating Agreements and the Pledged Partnership Agreements, to perform all of the duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Lender or any other Lender-Related Person of any of the rights hereunder shall not release any Grantor from any of its duties or obligations under such contracts and agreements included in the Collateral, and (c) none of the Lender-Related Persons shall have any obligation or liability under such contracts and agreements included in the Collateral by reason of this Agreement, nor shall any of the Lender-Related Persons be obligated to perform any of the obligations or duties of any Grantors thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. Until an Event of Default shall occur and be continuing, except as otherwise provided in this Agreement, the Credit Agreement, or any other Financing Agreement, Grantors shall have the right to possession and enjoyment of the Collateral for the purpose of conducting the ordinary course of their respective businesses, subject to and upon the terms hereof and of the Credit Agreement and the other Financing Agreements. Without limiting the

generality of the foregoing, it is the intention of the parties hereto that record and beneficial ownership of the Pledged Interests, including all voting, consensual, dividend, and distribution rights, shall remain in the applicable Grantor until (i) the occurrence and continuance of an Event of Default and (ii) Lender has notified the applicable Grantor of Lender's election to exercise such rights with respect to the Pledged Interests pursuant to Section 16.

6. Representations and Warranties. In order to induce Lender to enter into this Agreement for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, each Grantor makes the following representations and warranties to the Lender which shall be true, correct, and complete, in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof), as of the Closing Date, and shall be true, correct, and complete, in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof), as of the date of the making of each Advance (or other extension of credit) made thereafter, as though made on and as of the date of such Advance (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of such earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

(a) The name (within the meaning of Section 9-503 of the Code) and jurisdiction of organization of each Grantor and each of its Subsidiaries is set forth on Schedule 7 (as such Schedule may be updated from time to time to reflect changes resulting from transactions permitted under the Financing Agreements).

(b) The chief executive office of each Grantor and each of its Subsidiaries is located at the address indicated on Schedule 7 (as such Schedule may be updated from time to time to reflect changes resulting from transactions permitted under the Financing Agreements).

(c) Each Grantor's and each of its Subsidiaries' tax identification numbers and organizational identification numbers, if any, are identified on Schedule 7 (as such Schedule may be updated from time to time to reflect changes resulting from transactions permitted under the Financing Agreements).

(d) As of the Closing Date, no Grantor and no Subsidiary of a Grantor holds any commercial tort claims that exceed \$100,000 in amount, except as set forth on Schedule 1.

(e) Set forth on Schedule 9 (as such Schedule may be updated from time to time subject to Section 7(k)(iii) with respect to Controlled Accounts and provided that Grantors comply with Section 7(c) hereof) is a listing of all of Grantors' and their Subsidiaries' Deposit Accounts and Securities Accounts, including, with respect to each bank or securities intermediary (a) the name and address of such Person, and (b) the account numbers of the Deposit Accounts or Securities Accounts maintained with such Person.

(f) Schedule 8 sets forth all Real Property owned by any of the Grantors as of the Closing Date.

(g) As of the Closing Date: (i) Schedule 2 provides a complete and correct list of all registered Copyrights owned by any Grantor, all applications for registration of Copyrights owned by any Grantor, and all other Copyrights owned by any Grantor and material to the conduct of the business of

any Grantor; (ii) Schedule 3 provides a complete and correct list of all Intellectual Property Licenses entered into by any Grantor pursuant to which (A) any Grantor has provided any license or other rights in Intellectual Property owned or controlled by such Grantor to any other Person (other than non-exclusive software licenses granted in the ordinary course of business) or (B) any Person has granted to any Grantor any license or other rights in Intellectual Property owned or controlled by such Person that is material to the business of such Grantor, including any Intellectual Property that is incorporated in any Inventory, software, or other product marketed, sold, licensed, or distributed by such Grantor; (iii) Schedule 4 provides a complete and correct list of all Patents owned by any Grantor and all applications for Patents owned by any Grantor; and (iv) Schedule 6 provides a complete and correct list of all registered Trademarks owned by any Grantor, all applications for registration of Trademarks owned by any Grantor, and all other Trademarks owned by any Grantor and material to the conduct of the business of any Grantor.

(h) (i) (A) each Grantor owns exclusively or holds licenses in all Intellectual Property that is necessary in or material to the conduct of its business, and (B) all employees and contractors of each Grantor who were involved in the creation or development of any Intellectual Property for such Grantor that is necessary in or material to the business of such Grantor have signed agreements containing assignment of Intellectual Property rights to such Grantor and obligations of confidentiality;

(ii) to each Grantor's knowledge after reasonable inquiry, no Person has infringed or misappropriated or is currently infringing or misappropriating any Intellectual Property rights owned by such Grantor, in each case, that either individually or in the aggregate could reasonably be expected to result in a Material Adverse Effect;

(iii) (A) to each Grantor's knowledge after reasonable inquiry, (1) such Grantor has never infringed or misappropriated and is not currently infringing or misappropriating any Intellectual Property rights of any Person, and (2) no product manufactured, used, distributed, licensed, or sold by or service provided by such Grantor has ever infringed or misappropriated or is currently infringing or misappropriating any Intellectual Property rights of any Person, in each case, except where such infringement either individually or in the aggregate could not reasonably be expected to result in a Material Adverse Effect, and (B) there are no infringement or misappropriation claims or proceedings pending, or to any Grantor's knowledge after reasonable inquiry, threatened in writing against any Grantor, and no Grantor has received any written notice or other communication of any actual or alleged infringement or misappropriation of any Intellectual Property rights of any Person, in each case, except where such infringement either individually or in the aggregate could not reasonably be expected to result in a Material Adverse Effect;

(iv) to each Grantor's knowledge after reasonable inquiry, all registered Copyrights, registered Trademarks, and issued Patents that are owned by such Grantor and necessary in or material to the conduct of its business are valid, subsisting and enforceable and in compliance with all legal requirements, filings, and payments and other actions that are required to maintain such Intellectual Property in full force and effect, and

(v) each Grantor has taken reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all trade secrets owned by such Grantor that are necessary in or material to the conduct of the business of such Grantor,

(i) This Agreement creates a valid security interest in the Collateral of each Grantor, to the extent a security interest therein can be created under the Code, securing the payment of the

Secured Obligations. Except to the extent a security interest in the Collateral cannot be perfected by the filing of a financing statement under the Code, all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken or will have been taken upon the filing of financing statements listing each applicable Grantor, as a debtor, and Lender, as secured party, in the jurisdictions listed next to such Grantor's name on Schedule 11. Upon the making of such filings, Lender shall have a first priority perfected security interest in the Collateral of each Grantor to the extent such security interest can be perfected by the filing of a financing statement. Upon filing of any Copyright Security Agreement with the United States Copyright Office, filing of any Patent Security Agreement and any Trademark Security Agreement with the PTO, and the filing of appropriate financing statements in the jurisdictions listed on Schedule 11, all action necessary or desirable to protect and perfect the Security Interest in and on each Grantor's Patents, Trademarks, or Copyrights has been taken and such perfected Security Interest is enforceable as such as against any and all creditors of and purchasers from any Grantor. All action by any Grantor necessary to protect and perfect such security interest on each item of Collateral has been duly taken.

(j) (i) Except for the Security Interest created hereby, each Grantor is and will at all times be the sole holder of record and the legal and beneficial owner, free and clear of all Liens other than Permitted Liens, of the Pledged Interests indicated on Schedule 5 as being owned by such Grantor and, when acquired by such Grantor, any Pledged Interests acquired after the Closing Date; (ii) all of the Pledged Interests are duly authorized, validly issued, fully paid and nonassessable and the Pledged Interests constitute or will constitute the percentage of the issued and outstanding Equity Interests of the Pledged Companies of such Grantor identified on Schedule 5 as supplemented or modified by any Pledged Interests Addendum or any Joinder to this Agreement; (iii) such Grantor has the right and requisite authority to pledge, the Investment Property pledged by such Grantor to Lender as provided herein; (iv) all actions necessary or desirable to perfect and establish the first priority of, or otherwise protect, Lender's Liens in the Investment Property, and the proceeds thereof, have been duly taken, upon (A) the execution and delivery of this Agreement; (B) the taking of possession by Lender (or its agent or designee) of any certificates representing the Pledged Interests, together with undated powers (or other documents of transfer acceptable to Lender) endorsed in blank by the applicable Grantor; (C) the filing of financing statements in the applicable jurisdiction set forth on Schedule 11 for such Grantor with respect to the Pledged Interests of such Grantor that are not represented by certificates, and (D) with respect to any Securities Accounts, the delivery of Control Agreements with respect thereto; and (v) each Grantor has delivered to and deposited with Lender all certificates representing the Pledged Interests owned by such Grantor to the extent such Pledged Interests are represented by certificates, and undated powers (or other documents of transfer acceptable to Lender) endorsed in blank with respect to such certificates. None of the Pledged Interests owned or held by such Grantor has been issued or transferred in violation of any securities registration, securities disclosure, or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(k) No consent, approval, authorization, or other order or other action by, and no notice to or filing with, any Governmental Authority or any other Person is required (i) for the grant of a Security Interest by such Grantor in and to the Collateral pursuant to this Agreement or for the execution, delivery, or performance of this Agreement by such Grantor, or (ii) for the exercise by Lender of the voting or other rights provided for in this Agreement with respect to the Investment Property or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with such disposition of Investment Property by laws affecting the offering and sale of securities generally and except for consents, approvals, authorizations, or other orders or actions that have been obtained or given (as applicable) and that are still in force. No Intellectual Property License of any Grantor that is necessary in or material to the conduct of such Grantor's business requires any consent of

any other Person that has not been obtained in order for such Grantor to grant the security interest granted hereunder in such Grantor's right, title or interest in or to such Intellectual Property License.

(h) Schedule 12 sets forth all motor vehicles owned by Grantors as of the Closing Date, by model, model year, and vehicle identification number ("VIN").

(i) There is no default, breach, violation, or event of acceleration existing under any promissory note (as defined in the Code) constituting Collateral and pledged hereunder (each a "Pledged Note") and no event has occurred or circumstance exists which, with the passage of time or the giving of notice, or both, would constitute a default, breach, violation, or event of acceleration under any Pledged Note. No Grantor that is an obligee under a Pledged Note has waived any default, breach, violation, or event of acceleration under such Pledged Note.

(j) As to all limited liability company or partnership interests, issued under any Pledged Operating Agreement or Pledged Partnership Agreement, each Grantor hereby represents and warrants that the Pledged Interests issued pursuant to such agreement (A) are not dealt in or traded on securities exchanges or in securities markets, (B) do not constitute investment company securities, and (C) are not held by such Grantor in a Securities Account. In addition, none of the Pledged Operating Agreements, the Pledged Partnership Agreements, or any other agreements governing any of the Pledged Interests issued under any Pledged Operating Agreement or Pledged Partnership Agreement, provide that such Pledged Interests are securities governed by Article 8 of the Uniform Commercial Code as in effect in any relevant jurisdiction.

7. Covenants. Each Grantor, jointly and severally, covenants and agrees with Lender that from and after the date of this Agreement and until the date of termination of this Agreement in accordance with Section 23:

(a) Possession of Collateral. In the event that any Collateral, including Proceeds, is evidenced by or consists of Negotiable Collateral, Investment Property, or Chattel Paper having an aggregate value or face amount of \$100,000 or more for all such Negotiable Collateral, Investment Property, or Chattel Paper, the Grantors shall promptly (and in any event within five (5) Business Days after acquisition thereof), notify Lender thereof, and if and to the extent that perfection or priority of Lender's Security Interest is dependent on or enhanced by possession, the applicable Grantor, promptly (and in any event within five (5) Business Days) after request by Lender, shall execute such other documents and instruments as shall be requested by Lender or, if applicable, endorse and deliver physical possession of such Negotiable Collateral, Investment Property, or Chattel Paper to Lender, together with such undated powers (or other relevant document of transfer acceptable to Lender) endorsed in blank as shall be requested by Lender, and shall do such other acts or things deemed necessary or desirable by Lender to protect Lender's Security Interest therein;

(b) Chattel Paper.

(i) Promptly (and in any event within five (5) Business Days) after request by Lender, each Grantor shall take all steps reasonably necessary to grant Lender control of all electronic Chattel Paper in accordance with the Code and all "transferable records" as that term is defined in Section 16 of the Uniform Electronic Transaction Act and Section 201 of the federal Electronic Signatures in Global and National Commerce Act as in effect in any relevant jurisdiction, to the extent that the aggregate value or face amount of such electronic Chattel Paper equals or exceeds \$100,000;

(ii) If any Grantor retains possession of any Chattel Paper or instruments (which retention of possession shall be subject to the extent permitted hereby and by the Credit

Agreement), promptly upon the request of Lender, such Chattel Paper and instruments shall be marked with the following legend: "This writing and the obligations evidenced or secured hereby are subject to the Security Interest of Wells Fargo Capital Finance Corporation Canada, as lender and as agent for its affiliates";

(c) Control Agreements.

(i) Except to the extent otherwise excused by Section 7(k)(iv), each Grantor shall obtain an authenticated Control Agreement (which may include a Controlled Account Agreement), from each bank maintaining a Deposit Account or Securities Account for such Grantor;

(ii) Except to the extent otherwise excused by Section 7(k)(iv), each Grantor shall obtain an authenticated Control Agreement, from each issuer of uncertificated securities, securities intermediary, or commodities intermediary issuing or holding any financial assets or commodities to or for any Grantor, or maintaining a Securities Account for such Grantor; and

(iii) Except to the extent otherwise excused by Section 7(k)(iv), each Grantor shall obtain an authenticated Control Agreement with respect to all of such Grantor's investment property;

(d) Letter-of-Credit Rights. If the Grantors (or any of them) are or become the beneficiary of letters of credit having a face amount or value of \$100,000 or more in the aggregate, then the applicable Grantor or Grantors shall promptly (and in any event within five (5) Business Days after becoming a beneficiary), notify Lender thereof and, promptly (and in any event within five (5) Business Days) after request by Lender, enter into a tri-party agreement with Lender and the issuer or confirming bank with respect to letter-of-credit rights assigning such letter-of-credit rights to Lender and directing all payments thereunder to Lender's Account, all in form and substance reasonably satisfactory to Lender;

(e) Commercial Tort Claims. If the Grantors (or any of them) obtain Commercial Tort Claims having a value, or involving an asserted claim, in the amount of \$100,000 or more in the aggregate for all Commercial Tort Claims, then the applicable Grantor or Grantors shall promptly (and in any event within five (5) Business Days of obtaining such Commercial Tort Claim), notify Lender upon incurring or otherwise obtaining such Commercial Tort Claims and, promptly (and in any event within five (5) Business Days) after request by Lender, amend Schedule 1 to describe such Commercial Tort Claims in a manner that reasonably identifies such Commercial Tort Claims and which is otherwise reasonably satisfactory to Lender, and hereby authorizes the filing of additional financing statements or amendments to existing financing statements describing such Commercial Tort Claims, and agrees to do such other acts or things deemed necessary or desirable by Lender to give Lender a first priority, perfected security interest in any such Commercial Tort Claim;

(f) Government Contracts. Other than Accounts and Chattel Paper the aggregate value of which does not at any one time exceed \$100,000, if any Account or Chattel Paper arises out of a contract or contracts with the United States of America or any department, agency, or instrumentality thereof, Grantors shall promptly (and in any event within five (5) Business Days of the creation thereof) notify Lender thereof and, promptly (and in any event within five (5) Business Days) after request by Lender, execute any instruments or take any steps reasonably required by Lender in order that all moneys due or to become due under such contract or contracts shall be assigned to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, and shall provide written notice thereof under the Assignment of Claims Act or other applicable law;

(g) Intellectual Property.

(i) Upon the request of Lender, in order to facilitate filings with the PTO and the United States Copyright Office, each Grantor shall execute and deliver to Lender one or more Copyright Security Agreements, Trademark Security Agreements, or Patent Security Agreements to further evidence Lender's Lien on such Grantor's Patents, Trademarks, or Copyrights, and the General Intangibles of such Grantor relating thereto or represented thereby;

(ii) Each Grantor shall have the duty, with respect to Intellectual Property that is necessary in or material to the conduct of such Grantor's business, to protect and diligently enforce and defend at such Grantor's expense its Intellectual Property, including (A) to diligently enforce and defend, including promptly suing for infringement, misappropriation, or dilution and to recover any and all damages for such infringement, misappropriation, or dilution, and filing for opposition, interference, and cancellation against conflicting Intellectual Property rights of any Person, (B) to prosecute diligently any trademark application or service mark application that is part of the Trademarks pending as of the date hereof or hereafter until the termination of this Agreement, (C) to prosecute diligently any patent application that is part of the Patents pending as of the date hereof or hereafter until the termination of this Agreement, (D) to take all reasonable and necessary action to preserve and maintain all of such Grantor's Trademarks, Patents, Copyrights, Intellectual Property Licenses, and its rights therein, including paying all maintenance fees and filing of applications for renewal, affidavits of use, and affidavits of noncontestability, and (E) to require all employees, consultants, and contractors of each Grantor who were involved in the creation or development of such Intellectual Property to sign agreements containing assignment of Intellectual Property rights and obligations of confidentiality. Each Grantor further agrees not to abandon any Intellectual Property or Intellectual Property License that is necessary in or material to the conduct of such Grantor's business. Each Grantor hereby agrees to take the steps described in this Section 7(g)(ii) with respect to all new or acquired Intellectual Property to which it or any of its Subsidiaries is now or later becomes entitled that is necessary in or material to the conduct of such Grantor's business;

(iii) Grantors acknowledge and agree that the Lender shall have no duties with respect to any Intellectual Property or Intellectual Property Licenses of any Grantor. Without limiting the generality of this Section 7(g)(iii), Grantors acknowledge and agree that no Lender-Related Persons shall be under any obligation to take any steps necessary to preserve rights in the Collateral consisting of Intellectual Property or Intellectual Property Licenses against any other Person, but any Lender-Related Persons may do so at its option from and after the occurrence and during the continuance of an Event of Default, and all expenses incurred in connection therewith (including reasonable fees and expenses of attorneys and other professionals) shall be for the sole account of Borrowers and shall be chargeable to the Loan Account;

(iv) On each date on which a Compliance Certificate is to be delivered pursuant to Section 5.1 of the Credit Agreement (or, if an Event of Default has occurred and is continuing, more frequently if requested by Lender), each Grantor shall provide Lender with a written report of all new Patents, Trademarks or Copyrights that are registered or the subject of pending applications for registrations, and of all Intellectual Property Licenses that are material to the conduct of such Grantor's business, in each case, which were acquired, registered, or for which applications for registration were filed by any Grantor during the prior period and any statement of use or amendment to allege use with respect to intent-to-use trademark applications. In the case of such registrations or applications therefor, which were acquired by any Grantor, each such Grantor shall file the necessary documents with the appropriate Governmental Authority identifying the applicable Grantor as the owner (or as a co-owner thereof, if such is the case) of such Intellectual Property. In each of the foregoing cases, the applicable Grantor shall promptly cause to be prepared, executed, and delivered to Lender supplemental schedules to the applicable Financing Agreements to identify such Patent, Trademark and

Copyright registrations and applications therefor (with the exception of Trademark applications filed on an intent-to-use basis for which no statement of use or amendment to allege use has been filed) and Intellectual Property Licenses as being subject to the security interests created thereunder;

(v) Anything to the contrary in this Agreement notwithstanding, in no event shall any Grantor, either itself or through any agent, employee, licensee, or designee, file an application for the registration of any Copyright with the United States Copyright Office or any similar office or agency in another country without giving Lender written notice thereof at least five (5) Business Days prior to such filing and complying with Section 7(g)(i). Upon receipt from the United States Copyright Office of notice of registration of any Copyright, each Grantor shall promptly (but in no event later than five (5) Business Days following such receipt) notify (but without duplication of any notice required by Section 7(g)(v)) Lender of such registration by delivering, or causing to be delivered, to Lender, documentation sufficient for Lender to perfect Lender's Liens on such Copyright. If any Grantor acquires from any Person any Copyright registered with the United States Copyright Office or an application to register any Copyright with the United States Copyright Office, such Grantor shall promptly (but in no event later than five (5) Business Days following such acquisition) notify Lender of such acquisition and deliver, or cause to be delivered, to Lender, documentation sufficient for Lender to perfect Lender's Liens on such Copyright. In the case of such Copyright registrations or applications therefor which were acquired by any Grantor, each such Grantor shall promptly (but in no event later than five (5) Business Days following such acquisition) file the necessary documents with the appropriate Governmental Authority identifying the applicable Grantor as the owner (or as a co-owner thereof, if such is the case) of such Copyrights;

(vi) Each Grantor shall take reasonable steps to maintain the confidentiality of, and otherwise protect and enforce its rights in, the Intellectual Property that is necessary in or material to the conduct of such Grantor's business, including, as applicable (A) protecting the secrecy and confidentiality of its confidential information and trade secrets by having and enforcing a policy requiring all current employees, consultants, licensees, vendors and contractors with access to such information to execute appropriate confidentiality agreements; (B) taking actions reasonably necessary to ensure that no trade secret falls into the public domain; and (C) protecting the secrecy and confidentiality of the source code of all software programs and applications of which it is the owner or licensee by having and enforcing a policy requiring any licensees (or sublicensees) of such source code to enter into license agreements with commercially reasonable use and non-disclosure restrictions; and

(vii) No Grantor shall enter into any Intellectual Property License material to the conduct of the business to receive any license or rights in any Intellectual Property of any other Person unless such Grantor has used commercially reasonable efforts to permit the assignment of or grant of a security interest in such Intellectual Property License (and all rights of Grantor thereunder) to Lender (and any transferees of Lender);

(h) Investment Property.

(i) If any Grantor shall acquire, obtain, receive or become entitled to receive any Pledged Interests after the Closing Date, it shall promptly (and in any event within five (5) Business Days of acquiring or obtaining such Collateral) deliver to Lender a duly executed Pledged Interests Addendum identifying such Pledged Interests;

(ii) Upon the occurrence and during the continuance of an Event of Default, following the request of Lender, all sums of money and property paid or distributed in respect of the Investment Property that are received by any Grantor shall be held by the Grantors in trust for the benefit

of Lender, the Bank Product Providers and the other Lender-Related Persons, segregated from such Grantor's other property, and such Grantor shall deliver it forthwith to Lender in the exact form received;

(iii) Each Grantor shall promptly deliver to Lender a copy of each material notice or other material communication received by it in respect of any Pledged Interests;

(iv) No Grantor shall make or consent to any amendment or other modification or waiver with respect to any Pledged Interests, Pledged Operating Agreement, or Pledged Partnership Agreement, or enter into any agreement or permit to exist any restriction with respect to any Pledged Interests if the same is prohibited pursuant to the Financing Agreements;

(v) Each Grantor agrees that it will cooperate with Lender in obtaining all necessary approvals and making all necessary filings under federal, state, local, or foreign law to effect the perfection of the Security Interest on the Investment Property or to effect any sale or transfer thereof;

(vi) As to all limited liability company or partnership interests, issued under any Pledged Operating Agreement or Pledged Partnership Agreement, each Grantor hereby covenants that the Pledged Interests issued pursuant to such agreement (A) are not and shall not be dealt in or traded on securities exchanges or in securities markets, (B) do not and will not constitute investment company securities, and (C) are not and will not be held by such Grantor in a securities account. In addition, none of the Pledged Operating Agreements, the Pledged Partnership Agreements, or any other agreements governing any of the Pledged Interests issued under any Pledged Operating Agreement or Pledged Partnership Agreement, provide or shall provide that such Pledged Interests are securities governed by Article 8 of the Uniform Commercial Code as in effect in any relevant jurisdiction;

(i) Real Property; Fixtures. Each Grantor covenants and agrees that upon the acquisition of any fee interest in Real Property having a fair market value in excess of \$250,000 it will promptly (and in any event within two (2) Business Days of acquisition) notify Lender of the acquisition of such Real Property and will grant to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, a first priority Mortgage on each fee interest in Real Property now or hereafter owned by such Grantor and shall deliver such other documentation and opinions, in form and substance satisfactory to Lender, in connection with the grant of such Mortgage as Lender shall request in its Permitted Discretion, including title insurance policies, financing statements, fixture filings and environmental audits and such Grantor shall pay all recording costs, intangible taxes and other fees and costs (including reasonable attorneys fees and expenses) incurred in connection therewith. Each Grantor acknowledges and agrees that, to the extent permitted by applicable law, all of the Collateral shall remain personal property regardless of the manner of its attachment or affixation to real property;

(j) Transfers and Other Liens. Grantors shall not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, except as expressly permitted by the Credit Agreement, or (ii) create or permit to exist any Lien upon or with respect to any of the Collateral of any Grantor, except for Permitted Liens. The inclusion of Proceeds in the Collateral shall not be deemed to constitute Lender's consent to any sale or other disposition of any of the Collateral except as expressly permitted in this Agreement or the other Financing Agreements;

(k) Controlled Accounts; Controlled Investments.

(i) Each Grantor shall (A) establish and maintain cash management services of a type and on terms reasonably satisfactory to Lender at one or more of the banks set forth on Schedule 10 (each a "Controlled Account Bank"), and shall take reasonable steps to ensure that all of its and its Subsidiaries' Account Debtors forward payment of the amounts owed by them directly to such Controlled

Account Bank, and (B) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all of their Collections (including those sent directly by their Account Debtors to a Grantor) into a bank account of such Grantor (each, a “Controlled Account”) at one of the Controlled Account Banks;

(ii) Each Grantor shall establish and maintain Controlled Account Agreements with Lender and the applicable Controlled Account Bank, in form and substance reasonably acceptable to Lender. Each such Controlled Account Agreement shall provide, among other things, that (A) the Controlled Account Bank will comply with any instructions originated by Lender directing the disposition of the funds in such Controlled Account without further consent by the applicable Grantor, (B) the Controlled Account Bank waives, subordinates, or agrees not to exercise any rights of setoff or recoupment or any other claim against the applicable Controlled Account other than for payment of its service fees and other charges directly related to the administration of such Controlled Account and for returned checks or other items of payment, and (C) the Controlled Account Bank will forward, by daily sweep, all amounts in the applicable Controlled Account to the Lender’s Account;

(iii) So long as no Default or Event of Default has occurred and is continuing, Borrowers may amend Schedule 10 to add or replace a Controlled Account Bank or Controlled Account and shall upon such addition or replacement provide to Lender an amended Schedule 10; provided, however, that (A) such prospective Controlled Account Bank shall be reasonably satisfactory to Lender, and (B) prior to the time of the opening of such Controlled Account, the applicable Grantor and such prospective Controlled Account Bank shall have executed and delivered to Lender a Controlled Account Agreement. Each Grantor shall close any of its Controlled Accounts (and establish replacement Controlled Account accounts in accordance with the foregoing sentence) as promptly as practicable and in any event within forty-five (45) days after notice from Lender that the operating performance, funds transfer, or availability procedures or performance of the Controlled Account Bank with respect to Controlled Account Accounts or Lender’s liability under any Controlled Account Agreement with such Controlled Account Bank is no longer acceptable in Lender’s reasonable judgment;

(iv) Other than (i) an aggregate amount of not more than \$100,000 at any one time, in the case of Grantors and their Subsidiaries, and (ii) amounts deposited into Deposit Accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for any Grantor’s or its Subsidiaries’ employees, no Grantor will, and no Grantor will permit its Subsidiaries to, make, acquire, or permit to exist Permitted Investments consisting of cash, Cash Equivalents, or amounts credited to Deposit Accounts or Securities Accounts unless Grantor or its Subsidiary, as applicable, and the applicable bank or securities intermediary have entered into Control Agreements with Lender governing such Permitted Investments in order to perfect (and further establish) Lender’s Liens in such Permitted Investments;

(l) Name, Etc. No Grantor will, nor will any Grantor permit any of its Subsidiaries to, change its name, organizational identification number, jurisdiction of organization or organizational identity; provided, that Grantor or any of its Subsidiaries may change its name upon at least 10 days prior written notice to Lender of such change;

(m) Motor Vehicles. Promptly (and in any event within five (5) Business Days) after request by Lender, with respect to all goods covered by a certificate of title owned by any Grantor, such Grantor shall deliver to Lender or Lender’s designee, the certificates of title for all such goods and promptly (and in any event within five (5) Business Days) after request by Lender, such Grantor shall take all actions necessary to cause such certificates to be filed (with the Lender’s Lien noted thereon) in the appropriate state motor vehicle filing office; and

(n) Pledged Notes. Grantors (i) without the prior written consent of Lender, will not (A) waive or release any obligation of any Person that is obligated under any of the Pledged Notes, (B) take or omit to take any action or knowingly suffer or permit any action to be omitted or taken, the taking or omission of which would result in any right of offset against sums payable under the Pledged Notes, or (C) other than Permitted Dispositions, assign or surrender their rights and interests under any of the Pledged Notes or terminate, cancel, modify, change, supplement or amend the Pledged Notes, and (ii) shall provide to Lender copies of all material written notices (including notices of default) given or received with respect to the Pledged Notes promptly after giving or receiving such notice.

8. Relation to Other Security Documents. The provisions of this Agreement shall be read and construed with the other Financing Agreements referred to below in the manner so indicated.

(a) Credit Agreement. In the event of any conflict between any provision in this Agreement and a provision in the Credit Agreement, such provision of the Credit Agreement shall control.

(b) Patent, Trademark, Copyright Security Agreements. The provisions of the Copyright Security Agreements, Trademark Security Agreements, and Patent Security Agreements are supplemental to the provisions of this Agreement, and nothing contained in the Copyright Security Agreements, Trademark Security Agreements, or the Patent Security Agreements shall limit any of the rights or remedies of Lender hereunder. In the event of any conflict between any provision in this Agreement and a provision in a Copyright Security Agreement, Trademark Security Agreement or Patent Security Agreement, such provision of this Agreement shall control.

9. Further Assurances.

(a) Each Grantor agrees that from time to time, at its own expense, such Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that Lender may reasonably request, in order to perfect and protect the Security Interest granted hereby, to create, perfect or protect the Security Interest purported to be granted hereby or to enable Lender to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral.

(b) Each Grantor authorizes the filing by Lender of financing or continuation statements, or amendments thereto, and such Grantor will execute and deliver to Lender such other instruments or notices, as Lender may reasonably request, in order to perfect and preserve the Security Interest granted or purported to be granted hereby.

(c) Each Grantor authorizes Lender at any time and from time to time to file, transmit, or communicate, as applicable, financing statements and amendments (i) describing the Collateral as "all personal property of debtor" or "all assets of debtor" or words of similar effect, (ii) describing the Collateral as being of equal or lesser scope or with greater detail, or (iii) that contain any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance. Each Grantor also hereby ratifies any and all financing statements or amendments previously filed by Lender in any jurisdiction.

(d) Each Grantor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement filed in connection with this Agreement without the prior written consent of Lender, subject to such Grantor's rights under Section 9-509(d)(2) of the Code.

10. Lender's Right to Perform Contracts, Exercise Rights, etc. Upon the occurrence and during the continuance of an Event of Default, Lender (or its designee) (a) may proceed to perform any and all of the obligations of any Grantor contained in any contract, lease, or other agreement and exercise any and all rights of any Grantor therein contained as fully as such Grantor itself could, (b) shall have the right to use any Grantor's rights under Intellectual Property Licenses in connection with the enforcement of Lender's rights hereunder, including the right to prepare for sale and sell any and all Inventory and Equipment now or hereafter owned by any Grantor and now or hereafter covered by such licenses, and (c) shall have the right to request that any Equity Interests that are pledged hereunder be registered in the name of Lender or any of its nominees.

11. Lender Appointed Attorney-in-Fact. Each Grantor hereby irrevocably appoints Lender its attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, at such time as an Event of Default has occurred and is continuing under the Credit Agreement, to take any action and to execute any instrument which Lender may reasonably deem necessary or advisable to accomplish the purposes of this Agreement, including:

(a) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Accounts or any other Collateral of such Grantor;

(b) to receive and open all mail addressed to such Grantor and to notify postal authorities to change the address for the delivery of mail to such Grantor to that of Lender;

(c) to receive, indorse, and collect any drafts or other instruments, documents, Negotiable Collateral or Chattel Paper;

(d) to file any claims or take any action or institute any proceedings which Lender may deem necessary or desirable for the collection of any of the Collateral of such Grantor or otherwise to enforce the rights of Lender with respect to any of the Collateral;

(e) to repair, alter, or supply goods, if any, necessary to fulfill in whole or in part the purchase order of any Person obligated to such Grantor in respect of any Account of such Grantor;

(f) to use any Intellectual Property or Intellectual Property Licenses of such Grantor, including but not limited to any labels, Patents, Trademarks, trade names, URLs, domain names, industrial designs, Copyrights, or advertising matter, in preparing for sale, advertising for sale, or selling Inventory or other Collateral and to collect any amounts due under Accounts, contracts or Negotiable Collateral of such Grantor; and

(g) Lender, on behalf of the Lender or the Bank Product Providers, shall have the right, but shall not be obligated, to bring suit in its own name to enforce the Intellectual Property and Intellectual Property Licenses and, if Lender shall commence any such suit, the appropriate Grantor shall, at the request of Lender, do any and all lawful acts and execute any and all proper documents reasonably required by Lender in aid of such enforcement.

To the extent permitted by law, each Grantor hereby ratifies all that such attorney-in-fact shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable until this Agreement is terminated.

12. Lender May Perform. If any Grantor fails to perform any agreement contained herein, Lender may itself perform, or cause performance of, such agreement, and the reasonable expenses of Lender incurred in connection therewith shall be payable, jointly and severally, by Grantors.

13. Lender's Duties. The powers conferred on Lender hereunder are solely to protect Lender's interest in the Collateral, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, and shall not impose any duty upon Lender to exercise any such powers. Except for the safe custody of any Collateral in its actual possession and the accounting for moneys actually received by it hereunder, Lender shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Lender shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its actual possession if such Collateral is accorded treatment substantially equal to that which Lender accords its own property.

14. Collection of Accounts, General Intangibles and Negotiable Collateral. At any time upon the occurrence and during the continuance of an Event of Default, Lender or Lender's designee may (a) notify Account Debtors of any Grantor that the Accounts, General Intangibles, Chattel Paper or Negotiable Collateral of such Grantor have been assigned to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, or that Lender has a security interest therein, and (b) collect the Accounts, General Intangibles and Negotiable Collateral of any Grantor directly, and any collection costs and expenses shall constitute part of such Grantor's Secured Obligations under the Financing Agreements.

15. Disposition of Pledged Interests by Lender. None of the Pledged Interests existing as of the date of this Agreement are, and none of the Pledged Interests hereafter acquired on the date of acquisition thereof will be, registered or qualified under the various federal or state securities laws of the United States and disposition thereof after an Event of Default may be restricted to one or more private (instead of public) sales in view of the lack of such registration. Each Grantor understands that in connection with such disposition, Lender may approach only a restricted number of potential purchasers and further understands that a sale under such circumstances may yield a lower price for the Pledged Interests than if the Pledged Interests were registered and qualified pursuant to federal and state securities laws and sold on the open market. Each Grantor, therefore, agrees that: (a) if Lender shall, pursuant to the terms of this Agreement, sell or cause the Pledged Interests or any portion thereof to be sold at a private sale, Lender shall have the right to rely upon the advice and opinion of any nationally recognized brokerage or investment firm (but shall not be obligated to seek such advice and the failure to do so shall not be considered in determining the commercial reasonableness of such action) as to the best manner in which to offer the Pledged Interest or any portion thereof for sale and as to the best price reasonably obtainable at the private sale thereof; and (b) such reliance shall be conclusive evidence that Lender has handled the disposition in a commercially reasonable manner.

16. Voting and Other Rights in Respect of Pledged Interests.

(a) Upon the occurrence and during the continuation of an Event of Default, (i) Lender may, at its option, and with two (2) Business Days prior notice to any Grantor, and in addition to all rights and remedies available to Lender under any other agreement, at law, in equity, or otherwise, exercise all voting rights, or any other ownership or consensual rights (including any dividend or distribution rights) in respect of the Pledged Interests owned by such Grantor, but under no circumstances is Lender obligated by the terms of this Agreement to exercise such rights, and (ii) if Lender duly exercises its right to vote any of such Pledged Interests, each Grantor hereby appoints Lender, such Grantor's true and lawful attorney-in-fact and IRREVOCABLE PROXY to vote such Pledged Interests in

any manner Lender deems advisable for or against all matters submitted or which may be submitted to a vote of shareholders, partners or members, as the case may be. The power-of-attorney and proxy granted hereby is coupled with an interest and shall be irrevocable.

(b) For so long as any Grantor shall have the right to vote the Pledged Interests owned by it, such Grantor covenants and agrees that it will not, without the prior written consent of Lender, vote or take any consensual action with respect to such Pledged Interests which would materially adversely affect the rights of Lender, the other Lender-Related Persons, or the Bank Product Providers, or the value of the Pledged Interests.

17. Remedies. Upon the occurrence and during the continuance of an Event of Default:

(a) Lender may, and, at the instruction of the Required Lenders, shall exercise in respect of the Collateral, in addition to other rights and remedies provided for herein, in the other Financing Agreements, or otherwise available to it, all the rights and remedies of a secured party on default under the Code or any other applicable law. Without limiting the generality of the foregoing, each Grantor expressly agrees that, in any such event, Lender without demand of performance or other demand, advertisement or notice of any kind (except a notice specified below of time and place of public or private sale) to or upon any Grantor or any other Person (all and each of which demands, advertisements and notices are hereby expressly waived to the maximum extent permitted by the Code or any other applicable law), may take immediate possession of all or any portion of the Collateral and (i) require Grantors to, and each Grantor hereby agrees that it will at its own expense and upon request of Lender forthwith, assemble all or part of the Collateral as directed by Lender and make it available to Lender at one or more locations where such Grantor regularly maintains Inventory, and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of Lender's offices or elsewhere, for cash, on credit, and upon such other terms as Lender may deem commercially reasonable. Each Grantor agrees that, to the extent notification of sale shall be required by law, at least ten (10) days notification by mail to the applicable Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification and specifically such notification shall constitute a reasonable "authenticated notification of disposition" within the meaning of Section 9-611 of the Code. Lender shall not be obligated to make any sale of Collateral regardless of notification of sale having been given. Lender may adjourn any public sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Each Grantor agrees that (A) the internet shall constitute a "place" for purposes of Section 9-610(b) of the Code and (B) to the extent notification of sale shall be required by law, notification by mail of the URL where a sale will occur and the time when a sale will commence at least ten (10) days prior to the sale shall constitute a reasonable notification for purposes of Section 9-611(b) of the Code. Each Grantor agrees that any sale of Collateral to a licensor pursuant to the terms of a license agreement between such licensor and a Grantor is sufficient to constitute a commercially reasonable sale (including as to method, terms, manner, and time) within the meaning of Section 9-610 of the Code.

(b) Lender is hereby granted a license or other right to use, without liability for royalties or any other charge, each Grantor's Intellectual Property, including but not limited to, any labels, Patents, Trademarks, trade names, URLs, domain names, industrial designs, Copyrights, and advertising matter, whether owned by any Grantor or with respect to which any Grantor has rights under license, sublicense, or other agreements (including any Intellectual Property License), as it pertains to the Collateral, in preparing for sale, advertising for sale and selling any Collateral, and each Grantor's rights under all licenses and all franchise agreements shall inure to the benefit of Lender.

(c) Lender may, in addition to other rights and remedies provided for herein, in the other Financing Agreements, or otherwise available to it under applicable law and without the requirement of notice to or upon any Grantor or any other Person (which notice is hereby expressly waived to the maximum extent permitted by the Code or any other applicable law), (i) with respect to any Grantor's Deposit Accounts in which Lender's Liens are perfected by control under Section 9-104 of the Code, instruct the bank maintaining such Deposit Account for the applicable Grantor to pay the balance of such Deposit Account to or for the benefit of Lender, and (ii) with respect to any Grantor's Securities Accounts in which Lender's Liens are perfected by control under Section 9-106 of the Code, instruct the securities intermediary maintaining such Securities Account for the applicable Grantor to (A) transfer any cash in such Securities Account to or for the benefit of Lender, or (B) liquidate any financial assets in such Securities Account that are customarily sold on a recognized market and transfer the cash proceeds thereof to or for the benefit of Lender.

(d) Any cash held by Lender as Collateral and all cash proceeds received by Lender in respect of any sale of, collection from, or other realization upon all or any part of the Collateral shall be applied against the Secured Obligations in the order set forth in the Credit Agreement. In the event the proceeds of Collateral are insufficient to satisfy all of the Secured Obligations in full, each Grantor shall remain jointly and severally liable for any such deficiency.

(e) Each Grantor hereby acknowledges that the Secured Obligations arise out of a commercial transaction, and agrees that if an Event of Default shall occur and be continuing Lender shall have the right to an immediate writ of possession without notice of a hearing. Lender shall have the right to the appointment of a receiver for the properties and assets of each Grantor, and each Grantor hereby consents to such rights and such appointment and hereby waives any objection such Grantor may have thereto or the right to have a bond or other security posted by Lender.

18. Remedies Cumulative. Each right, power, and remedy of Lender, any Bank Product Provider or any other Lender-Related Person as provided for in this Agreement, the other Financing Agreements or any Bank Product Agreement now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power, or remedy provided for in this Agreement, the other Financing Agreements and the Bank Product Agreements or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Lender, any Bank Product Provider, or any other Lender-Related Person, of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by Lender, such other Lender-Related Persons or such Bank Product Provider of any or all such other rights, powers, or remedies.

19. Marshaling. Lender shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Secured Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, each Grantor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of Lender's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Secured Obligations or under which any of the Secured Obligations is outstanding or by which any of the Secured Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each Grantor hereby irrevocably waives the benefits of all such laws.

20. Indemnity and Expenses.

(a) Each Grantor agrees to indemnify Lender and the other Lender-Related Persons from and against all claims, lawsuits and liabilities (including reasonable attorneys fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or any other Financing Agreement to which such Grantor is a party, except claims, losses or liabilities resulting from the gross negligence or willful misconduct of the party seeking indemnification as determined by a final non-appealable order of a court of competent jurisdiction. This provision shall survive the termination of this Agreement and the Credit Agreement and the repayment of the Secured Obligations.

(b) Grantors, jointly and severally, shall, upon demand, pay to Lender (or Lender, may charge to the Loan Account) all the Lender Expenses which Lender may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or, upon an Event of Default, the sale of, collection from, or other realization upon, any of the Collateral in accordance with this Agreement and the other Financing Agreements, (iii) the exercise or enforcement of any of the rights of Lender hereunder or (iv) the failure by any Grantor to perform or observe any of the provisions hereof.

21. Merger, Amendments; Etc. THIS AGREEMENT, TOGETHER WITH THE OTHER FINANCING AGREEMENTS, REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES. No waiver of any provision of this Agreement, and no consent to any departure by any Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any provision of this Agreement shall be effective unless the same shall be in writing and signed by Lender and each Grantor to which such amendment applies.

22. Addresses for Notices. All notices and other communications provided for hereunder shall be given in the form and manner and delivered to Lender at its address specified in the Credit Agreement, and to any of the Grantors at their respective addresses specified in the Credit Agreement or Guaranty, as applicable, or, as to any party, at such other address as shall be designated by such party in a written notice to the other party.

23. Continuing Security Interest: Assignments under Credit Agreement.

(a) This Agreement shall create a continuing security interest in the Collateral and shall (i) remain in full force and effect until the Obligations have been paid in full in accordance with the provisions of the Credit Agreement and the Commitments have expired or have been terminated, (ii) be binding upon each Grantor, and their respective successors and assigns, and (iii) inure to the benefit of, and be enforceable by, Lender, and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may, in accordance with the provisions of the Credit Agreement, assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise. Upon payment in full of the Secured Obligations in accordance with the provisions of the Credit Agreement and the expiration or termination of the Commitments, the Guaranty made and the Security Interest granted hereby shall terminate and all rights to the Collateral shall revert to Grantors or any other Person entitled thereto. At such time, upon Borrowers' request, Lender will authorize the filing of appropriate termination statements to terminate such Security Interest. No transfer or renewal, extension, assignment, or termination of this Agreement or of the Credit Agreement, any other Financing Agreement, or any other instrument or document executed and delivered by any Grantor to Lender nor any additional Advances or other loans made by any Lender

to Borrowers, nor the taking of further security, nor the retaking or re-delivery of the Collateral to Grantors, or any of them, by Lender, nor any other act of the Lender or the Bank Product Providers, or any of them, shall release any Grantor from any obligation, except a release or discharge executed in writing by Lender in accordance with the provisions of the Credit Agreement. Lender shall not by any act, delay, omission or otherwise, be deemed to have waived any of its rights or remedies hereunder, unless such waiver is in writing and signed by Lender and then only to the extent therein set forth. A waiver by Lender of any right or remedy on any occasion shall not be construed as a bar to the exercise of any such right or remedy which Lender would otherwise have had on any other occasion.

(b) Each Grantor agrees that, if any payment made by any Grantor or other Person and applied to the Secured Obligations is at any time annulled, avoided, set, aside, rescinded, invalidated, declared to be fraudulent or preferential or otherwise required to be refunded or repaid, or the proceeds of any Collateral are required to be returned by Lender or any other Lender-Related Persons to such Grantor, its estate, trustee, receiver or any other party, including any Grantor, under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or repayment, any Lien or other Collateral securing such liability shall be and remain in full force and effect, as fully as if such payment had never been made. If, prior to any of the foregoing, (i) any Lien or other Collateral securing such Grantor's liability hereunder shall have been released or terminated by virtue of the foregoing clause (a), or (ii) any provision of the Guaranty hereunder shall have been terminated, cancelled or surrendered, such Lien, other Collateral or provision shall be reinstated in full force and effect and such prior release, termination, cancellation or surrender shall not diminish, release, discharge, impair or otherwise affect the obligations of any such Grantor in respect of any Lien or other Collateral securing such obligation or the amount of such payment.

24. Survival. All representations and warranties made by the Grantors in this Agreement and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that Lender, Issuing Lender, or any Lender may have had notice or knowledge of any Default or Event of Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any loan or any fee or any other amount payable under the Credit Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated.

25. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER; JUDICIAL REFERENCE PROVISION.

(a) THE VALIDITY OF THIS AGREEMENT, THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF, THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO, AND ANY CLAIMS, CONTROVERSIES OR DISPUTES ARISING HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(b) THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK; PROVIDED, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY

BE BROUGHT, AT LENDER'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE LENDER ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH GRANTOR AND LENDER WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 25(b).

(c) TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH GRANTOR AND LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS, IF ANY, TO A JURY TRIAL OF ANY CLAIM, CONTROVERSY, DISPUTE OR CAUSE OF ACTION DIRECTLY OR INDIRECTLY BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS (EACH A "CLAIM"). EACH GRANTOR AND LENDER REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(d) EACH GRANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK AND THE STATE OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST ANY GRANTOR OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(e) NO CLAIM MAY BE MADE BY ANY GRANTOR AGAINST LENDER OR ANY AFFILIATE, DIRECTOR, OFFICER, EMPLOYEE, COUNSEL, REPRESENTATIVE, AGENT, OR ATTORNEY-IN-FACT OF ANY OF THEM FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGES IN RESPECT OF ANY CLAIM FOR BREACH OF CONTRACT OR ANY OTHER THEORY OF LIABILITY ARISING OUT OF OR RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, OR ANY ACT, OMISSION, OR EVENT OCCURRING IN CONNECTION HERewith, AND EACH GRANTOR HEREBY WAIVES, RELEASES, AND AGREES NOT TO SUE UPON ANY CLAIM FOR SUCH DAMAGES, WHETHER OR NOT ACCRUED AND WHETHER OR NOT KNOWN OR SUSPECTED TO EXIST IN ITS FAVOR.

26. New Subsidiaries. Pursuant to Section 5.11 of the Credit Agreement, certain Subsidiaries (whether by acquisition or creation) of any Grantor are required to enter into this Agreement by executing and delivering in favor of Lender a Joinder to this Agreement in substantially the form of Annex 1. Upon the execution and delivery of Annex 1 by any such new Subsidiary, such Subsidiary shall become a Guarantor and Grantor hereunder with the same force and effect as if originally named as a Guarantor and Grantor herein. The execution and delivery of any instrument adding an additional Guarantor or Grantor as a party to this Agreement shall not require the consent of any Guarantor or Grantor hereunder. The rights and obligations of each Guarantor and Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Guarantor or Grantor hereunder.

27. Lender. Each reference herein to any right granted to, benefit conferred upon or power exercisable by the “Lender” shall be a reference to Lender, for the benefit of Lender, each of the Bank Product Providers and each other Lender-Related Person.

28. Miscellaneous.

(a) This Agreement is a Financing Agreement. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Financing Agreement *mutatis mutandis*.

(b) Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in that jurisdiction or affecting the validity or enforceability of such provision in any other jurisdiction. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

(c) Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

(d) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against any Lender-Related Persons or any Grantor, whether under any rule of construction or otherwise. This Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

[signature pages follow]

IN WITNESS WHEREOF, the undersigned parties hereto have caused this Agreement to be executed and delivered as of the day and year first above written.

GRANTORS:

KRAUS USA, INC.

By: Kevin Black
Name: Kevin Black
Title: Assistant Secretary

BARRETT CARPET MILLS, INC.

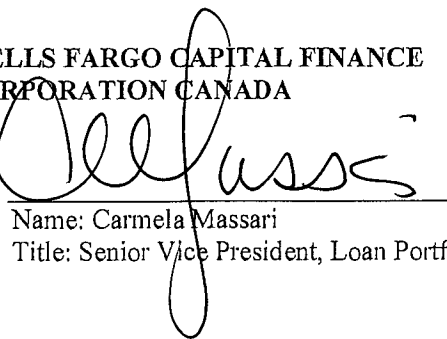
By: Kevin Black
Name: Kevin Black
Title: Assistant Secretary

[SIGNATURE PAGE TO SECURITY AGREEMENT]

LENDER:

WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA

By:

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

Name: Carmela Massari

Title: Senior Vice President, Loan Portfolio Manager

[SIGNATURE PAGE TO SECURITY AGREEMENT]

SCHEDULE 1

COMMERCIAL TORT CLAIMS

[include specific case caption or descriptions per Official Code Comment 5 to Section 9-108 of the Code]

NONE

SCHEDULE 2

COPYRIGHTS

NONE

SCHEDULE 3

INTELLECTUAL PROPERTY LICENSES

NONE

SCHEDULE 4

PATENTS

NONE

SCHEDULE 5

PLEGDED COMPANIES

Name of Grantor	Name of Pledged Company	Number of Shares/Units	Class of Interests	Percentage of Class Owned	Percentage of Class Pledged	Certificate Nos.
Kraus USA, Inc.	Barrett Carpet Mills, Inc.	5,000	Common Stock	100%	100%	21
Kraus USA, Inc.	Barrett Carpet Mills, Inc.	1,500	Preferred Stock	100%	100%	1
Kraus USA, Inc.	Royal Scot Floorcovering Distribution L.L.C.	10,000,000	Membership Units	100%	100%	4

SCHEDULE 6

TRADEMARKS

Kraus USA, Inc.:

NONE

Barrett Carpet Mills, Inc.:

1. RAVELGUARD; Registration No. 2352275 (see attached)
2. ZIPPERGUARD; Registration No. 2224794 (see attached)
3. RAVELGUARD; Registration No. 2224793 (see attached)



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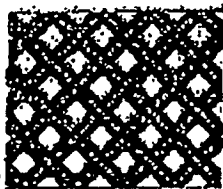
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Word Mark RAVELGUARD
Goods and Services IC 027. US 019 020 037 042 050. G & S: carpet. FIRST USE: 19981015. FIRST USE IN COMMERCE: 19981015
Mark Drawing Code (3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code 09.01.02 - Embroidery; Labels, clothing; Stitching, not on clothing pockets
Serial Number 75313770
Filing Date June 24, 1997
Current Basis 1A
Original Filing Basis 1B
Published for Opposition April 13, 1999
Registration Number 2362275
Registration Date May 23, 2000
Owner (REGISTRANT) BARRETT CARPET MILLS, INC. CORPORATION GEORGIA P.O. Box 2046 Dalton GEORGIA 307222045
Attorney of Record EDWARD J KONDRACKI
Type of Mark TRADEMARK
Register PRINCIPAL
Affidavit Text SECT 15. SECT 8 (8-YR). SECTION 8(10-YR) 20100727.
Renewal 1ST RENEWAL 20100727
Live/Dead Indicator LIVE



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Goods and Services IC 027. US 019 020 037 042 050. G & S: carpet. FIRST USE: 19980600. FIRST USE IN COMMERCE: 19980600
Mark Drawing Code (1) TYPED DRAWING
Serial Number 76313769
Filing Date June 24, 1997
Current Basis 1A
Original Filing Basis 1B
Published for Opposition June 9, 1998
Registration Number 2224794
Registration Date February 16, 1999
Owner (REGISTRANT) BARRETT CARPET MILLS, INC. CORPORATION GEORGIA P.O. Box 2045 Dalton GEORGIA 307222045
Attorney of Record DAVID R. SCHAFFER
Type of Mark TRADEMARK
Register PRINCIPAL
Affidavit Text SECT 15. SECT 8 (6-YR). SECTION 8(10-YR) 20090218.
Renewal 1ST RENEWAL 20090218
Live/Dead Indicator LIVE

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Typed Drawing

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Goods and Services IC 027. US 019 020 037 042 050. G & S: carpet. FIRST USE: 19940000. FIRST USE IN COMMERCE: 19940000
Mark Drawing Code (1) TYPED DRAWING
Serial Number 75313768
Filing Date June 24, 1997
Current Basis 1A
Original Filing Basis 1B
Published for Opposition June 9, 1998
Registration Number 2224793
Registration Date February 16, 1999
Owner (REGISTRANT) BARRETT CARPET MILLS, INC. CORPORATION GEORGIA P.O. Box 2045 Dalton GEORGIA 307222045
Attorney of Record DAVID R. SCHAFFER
Type of Mark TRADEMARK
Register PRINCIPAL
Affidavit Text SECT 15. SECT 8 (6-YR). SECTION 8(10-YR) 20090113.
Renewal 1ST RENEWAL 20090113
Live/Dead Indicator LIVE

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SCHEDULE 7

NAME; CHIEF EXECUTIVE OFFICE; TAX IDENTIFICATION NUMBERS AND ORGANIZATIONAL NUMBERS

	Name	Jurisdiction of Organization	Chief Executive Office	Tax Identification Number	Organizational Identification Number
Grantor	Kraus USA, Inc.	Delaware	160 Amsler Avenue Shipperville, PA 16254	98-0351024	3254441
Subsidiary of Kraus USA, Inc.	Royal Scot Floorcovering Distribution L.L.C.	Illinois	160 Amsler Avenue Shipperville, PA 16254	36-4052650	00048526
Grantor	Barrett Carpet Mills, Inc.	Georgia	2216 Abutment Rd Dalton, GA 30721	58-1084885	H002157

SCHEDULE 8

OWNED REAL PROPERTY

Kraus USA, Inc.:

NONE

Barrett Carpet Mills, Inc.:

Property located in Whitfield County, Georgia (see attached legal description)

LEGAL DESCRIPTION

Tract I

TRACT I: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lots 9 and 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, and being that identical tract shown as containing 1.330 acres on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096 for Roy Barrett, dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia, being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed, begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road as measured along the west side of said Abutment Road, thence south 88 degrees 35 minutes west 526.72 feet; thence proceed north 01 degree 35 minutes 30 seconds west 211.53 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 24 minutes 30 seconds west 352.35 feet; thence north 01 degree 35 minutes 30 seconds west 54.55 feet; thence south 88 degrees 29 minutes west 2.47 feet to an iron pin; thence north 01 degree 31 minutes west 110.46 feet; thence north 88 degrees 51 minutes east 354.68 feet to the west right-of-way of a 24 feet in width road easement; thence south 01 degree 35 minutes 30 seconds east along said road easement 162.28 feet to the true point of beginning of the tract herein conveyed.

Tract II

TRACT II: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lot 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, being that 0.733 acre tract shown on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096, for Roy Barrett dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia and being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road, as measured along the west side of said Abutment Road and proceed south 88 degrees 35 minutes west a distance of 526.72 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 35 minutes west 352.35 feet;

LEGAL DESCRIPTION

thence north 01 degree 35 minutes 30 seconds west 90.10 feet;
thence south 88 degrees 24 minutes 30 seconds west 352.35 feet to
the west right-of-way of a 24 feet in width road easement; thence
south 01 degree 35 minutes 30 seconds east a distance of 91.18 feet
to the TRUE POINT OF BEGINNING of the tract herein conveyed.

ALSO CONVEYED HEREIN, is a perpetual easement for the purpose of
ingress and egress over, through and across the following lands,
to-wit: A certain tract or parcel of land lying and being in
Land Lot 333 of the 12th District and 3rd Section of Whitfield
County, Georgia, being part of Lots 9 and 10 of J. A. McFarland
Farm Subdivision, as per plat of same recorded in Plat Book 1,
Page 86 - 87, Clerk's Office, Whitfield County, Georgia and being
that "24 feet road easement" shown on a plat of survey prepared
by Peter L. Bakkum, Registered Land Surveyor No. 1096 for Roy
Barrett, dated January 14, 1981, said easement area being more
particularly described as follows:

BEGINNING at a point on the west side of the right-of-way of Abutment
Road, said point being located 374.86 feet north of the northwest
corner of the intersection of said Abutment Road with Brickyard
Road, as measured along the west side of said Abutment Road; thence
south 88 degrees 24 minutes 30 seconds west 526.74 feet; thence
north 01 degree 35 minutes 30 seconds west 350.56 feet; thence
north 88 degrees 51 minutes east 24 feet; thence south 01 degree
35 minutes 30 seconds east 326.37 feet; thence north 88 degrees
24 minutes 30 seconds east 502.78 feet to the west right-of-way
of Abutment Road; thence south 01 degree 31 minutes east along
the west right-of-way of Abutment Road 24 feet to the point of
beginning.

Said property over which this perpetual easement is granted is
adjacent to the eastside of Tract I hereinabove described and
adjacent to a portion of the east line of Tract II hereinabove
described, and this easement is granted as appurtenant to Tract I
and Tract II, hereinabove described, for the purpose of ingress
from Abutment Road to said Tracts and for egress from said tracts
to Abutment Road. The easement herein granted shall bind the heirs,
successors and assigns of the grantor herein and shall inure to the
benefit of the successors in title of the grantee herein.

LEGAL DESCRIPTION

Tract III

ALL THAT TRACT OR PARCEL OF LAND lying, situated and being in Land Lot 333, 12th District, 3rd Section, Whitfield County, Georgia, and being known and described as parts of Lots 9, 10 and 13 of the J. A. MacFarland Farm Subdivision, as per plat of said subdivision recorded in Plat Book 1, Page 86 (Plat Cabinet A, Slide 21), Whitfield County Land Records, and being more particularly described as follows:

COMMENCE at the northwest corner of the intersection of Brickyard Road with Abutment Road, run thence North along the west side of said Abutment Road 350 feet to **THE TRUE POINT OF BEGINNING**. **FROM THE TRUE POINT OF BEGINNING AS THUS ESTABLISHED**, run South 88 degrees 35 minutes West 881.88 feet to an iron pin; thence continue South 88 degrees 29 minutes West 200 feet to an iron pin; thence North 01 degrees 31 minutes West 265 feet to an iron pin; thence North 88 degrees 29 minutes East 197.53 feet to a point; thence North 01 degree 31 minutes West 110.46 feet to a point; thence North 88 degrees 51 minutes East 681.66 feet to a point; thence South 01 degree 31 minutes East 180 feet to a point; thence North 88 degrees 51 minutes East 200 feet to a point; thence South 01 degree 31 minutes East 191.40 feet to the **TRUE POINT OF BEGINNING**.

LESS AND EXCEPT the lands previously conveyed to Barrett Carpet Mills, Inc. by virtue of a General Warranty Deed from Roy Barrett dated June 19, 1981, recorded at Deed Book 663, Page 240, in the Office of the Clerk of the Superior Court of Whitfield County, Georgia.

FURTHER LESS AND EXCEPT THE FOLLOWING RIGHTS-OF-WAY:

RIGHT-OF-WAY I: BEING that portion of the lands described above encompassed by a Public Road running in a northerly direction from the Brickyard Road traversing the westernmost portion of Parcel II and shown on the Plat prepared by Peter L. Bakkum, dated September 3, 1974.

RIGHT-OF-WAY II: BEING that portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on January 22, 1990 in Deed Book 2110, Page 337, Superior Court Clerk's Office, Whitfield County, Georgia.

RIGHT-OF-WAY III: BEING any portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on August 1, 1989 in Deed Book 2078, Page 157, Superior Court Clerk's Office, Whitfield County, Georgia.

LEGAL DESCRIPTION

Tract IV

All that tract and parcel and land and being part of land lot number 333 of the 12th District and 3rd Section of Whitfield County Georgia and being .50 acres more or less as per a survey of said property recorded in Plat book D page 154 in records of the Clerk of Court of Superior Court of Whitfield County Georgia. Said Plat is hereby incorporated for a full and complete description of the property. This property is the same property conveyed to the grantors by a Warranty Deed recorded at Deed Book 2254 paid 332 and 333 of Deed Record of Clerk of the Superior Court of Whitfield County Georgia of November 18, 1991.

SCHEDULE 9

DEPOSIT ACCOUNTS AND SECURITIES ACCOUNTS

Kraus USA, Inc.

BMO Harris Bank
111 West Monroe Street
Chicago, Illinois 60603

Account No: 3365467 (Account Name: Kraus USA Inc.)

Account No. 4121760 (Account Name: Kraus USA AR)

Account No. 4123576 (Account Name: Kraus USA AP)

Barrett Carpet Mills, Inc.

BMO Harris Bank
111 West Monroe Street
Chicago, Illinois 60603

Account No. 1815737 (Account Name: Barrett Carpet AR)

Account No. 1816057 (Account Name: Barrett Carpet AP)

Royal Scot Royal Scot Flooring Distribution L.L.C.

NONE

SCHEDULE 10

CONTROLLED ACCOUNT BANKS

Kraus USA, Inc.

BMO Harris Bank
111 West Monroe Street
Chicago, Illinois 60603

Barrett Carpet Mills, Inc.

BMO Harris Bank
111 West Monroe Street
Chicago, Illinois 60603

Royal Scot Royal Scot Flooring Distribution L.L.C.

NONE

SCHEDULE 11

LIST OF UNIFORM COMMERCIAL CODE FILING JURISDICTIONS

Grantor	Jurisdictions
Kraus USA, Inc.	Delaware
Barrett Carpet Mills, Inc.	Georgia

SCHEDULE 12

MOTOR VEHICLES

Those vehicles designated as "Owned" on attached spreadsheet.

YEAR	MAKE/MODEL	COMPLETE VIN/SERIAL #	Leased or Owned
Kraus USA, Inc.			
1999	Utility 48' Trailer	1UYYS2488YC076430	Leased
2000	Utility 48' Trailer	1UYYS2489YC076419	Leased
2001	Utility 53' Trailer	1UYYS25371C394743	Leased
2007	Freightliner Tractor	1FUJA6CK87PX17855	Leased
2001	Utility Trailer (VS2DC53/162/102)	1UYYS25321P490529	Owned
2012	Buick Lacrosse	1G4GF5E36CF184709	Leased
2012	Dodge Grand Caravan	2C4RDGBG9CR168320	Leased
2012	Dodge Grand Caravan	2C4RDGBG4CR263018	Leased BBL
2011	Dodge Grand Caravan	2D4RN3DG8BR706274	Leased
2012	Dodge Grand Caravan	2C4RDGBG6CR263019	BBL Fleet Co
2011	Dodge Grand Caravan	2D4RN3DG8BR624027	Leased BBL
2012	Dodge Grand Caravan	2C4RDGBG9CR193726	Leased BBL
2012	Dodge Grand Caravan	2C4RDGBG2CR263020	BBL Fleet Co.
1996	Stoughton Trailer	1DW1A4821TS999103	Owned
1997	Stoughton Trailer	1DW1A4823VS119214	Owned
1999	Trailmobile Trailer	1PT01JAH6X6007078	Owned
1998	Trailmobile Trailer - 53 ft	1PT01JLH1W6004987	Owned
1998	Trailmobile Trailer (used)	1PT01JLH7W6004993	Owned
2001	Trailmobile Trailer (used)	1PT01JSHX16002859	Owned
2001	Trailmobile Trailer (used)	1PT01JAH616002860	Owned
1999	Trailmobile Trailer	1PT01JAH4X6007080	Owned
1990	Trailer	1PT011AK0L9001569	Owned
2005	Freightliner Sprinter	WD2PD7449S733004	Leased/GE
2006	Sprinter Del Van Mod 2500 (Frm PGH)	WD0PD744365969772	Leased/GE
2000	Trailmobile Trailer	1PT01JAH8Y6012878	Leased/BBL
2000	Trailmobile Trailer	1PT01JAH8Y6012879	Leased/BBL
2000	Trailmobile Trailer	1PT01JAH8Y6012877	Leased/BBL
2005	INT 4400 W/Body	1HTMKAAN75H123415	Leased/BBL
2002	International Tractor Model 9000	3HSCNASR02N045070	Leased/BBL
2006	International 7600 w/Morgan 26' Body	1HTTXAHN76J373153	Leased/BBL
2006	Freightliner Sprinter 2500	WDYPD744365969641	Leased/BBL
2006	INT 4400 W/Body	1HTMKAAN16H181571	Leased/BBL
2002	International Tractor Model 9000	2HSCNASR02C025709	Leased/BBL
2012	Jeep Grand Cherokee	1C4RJFAG7CC265391	Leased/BBL
2013	International Truck	1HTMKAANXDH408389	Leased
2013	International Truck	1HTMKAAN2DH408795	Leased
2012	Dodge Grand Caravan	2C4RDGBG5CR399061	Leased
2013	Chrysler 300	2C3CCAAG4DH535732	Leased

Barrett Carpet Mills, Inc.			
2001	Isuzu Box Truck	4KLC4B1R41J804792	Owned

ANNEX 1 TO GUARANTY AND SECURITY AGREEMENT
FORM OF JOINDER

Joinder No. ____ (this “Joinder”), dated as of _____ 20____, to the Guaranty and Security Agreement, dated as of July __, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the “Guaranty and Security Agreement”), by and among each of the parties listed on the signature pages thereto and those additional entities that thereafter become parties thereto (collectively, jointly and severally, “Grantors” and each, individually, a “Grantor”) and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and agent for its affiliates under the Credit Agreement (as defined below) (the “Lender”).

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement dated as of July __, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the “Credit Agreement”) by and among Lender, Kraus Carpet LP, an Ontario limited partnership, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership and any additional entities that hereafter become borrowers under the Credit Agreement (each, a “Borrower” and collectively, the “Borrowers”) and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, initially capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Joinder shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*; and

WHEREAS, Grantors have entered into the Guaranty and Security Agreement in order to induce the Lender and the Bank Product Providers to make certain financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements, and the Bank Product Agreements; and

WHEREAS, pursuant to Section 5.11 of the Credit Agreement and Section 26 of the Guaranty and Security Agreement, certain Subsidiaries of the Credit Parties, must execute and deliver certain Financing Agreements, including the Guaranty and Security Agreement, and the joinder to the Guaranty and Security Agreement by the undersigned new Grantor or Grantors (collectively, the “New Grantors”) may be accomplished by the execution of this Joinder in favor of Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons; and

WHEREAS, each New Grantor (a) is [an Affiliate] [a Subsidiary] of Borrowers and, as such, will benefit by virtue of the financial accommodations extended to Borrowers by the Lender or the Bank Product Providers and (b) by becoming a Grantor will benefit from certain rights granted to the Grantors pursuant to the terms of the Financing Agreements and the Bank Product Agreements;

NOW, THEREFORE, for and in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each New Grantor hereby agrees as follows:

1. In accordance with Section 26 of the Guaranty and Security Agreement, each New Grantor, by its signature below, becomes a “Grantor” and “Guarantor” under the Guaranty and Security Agreement with the same force and effect as if originally named therein as a “Grantor” and “Guarantor” and each New Grantor hereby (a) agrees to all of the terms and provisions of the Guaranty and Security Agreement applicable to it as a “Grantor” or “Guarantor” thereunder and (b)

represents and warrants that the representations and warranties made by it as a “Grantor” or “Guarantor” thereunder are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that are already qualified or modified by materiality in the text thereof) on and as of the date hereof. In furtherance of the foregoing, each New Grantor hereby (a) jointly and severally unconditionally and irrevocably guarantees as a primary obligor and not merely as a surety the full and prompt payment when due, whether upon maturity, acceleration, or otherwise, of all of the Guaranteed Obligations, and (b) unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, to secure the Secured Obligations, a continuing security interest in and to all of such New Grantor’s right, title and interest in and to the Collateral. Each reference to a “Grantor” or “Guarantor” in the Guaranty and Security Agreement shall be deemed to include each New Grantor. The Guaranty and Security Agreement is incorporated herein by reference.

2. Schedule 1, “Commercial Tort Claims”, Schedule 2, “Copyrights”, Schedule 3, “Intellectual Property Licenses”, Schedule 4, “Patents”, Schedule 5, “Pledged Companies”, Schedule 6, “Trademarks”, Schedule 7, Name; Chief Executive Office; Tax Identification Numbers and Organizational Numbers, Schedule 8, “Owned Real Property”, Schedule 9, “Deposit Accounts and Securities Accounts”, Schedule 10, “Controlled Account Banks”, Schedule 11, “List of Uniform Commercial Code Filing Jurisdictions”, and Schedule 12, “Motor Vehicles” attached hereto supplement Schedule 1, Schedule 2, Schedule 3, Schedule 4, Schedule 5, Schedule 6, Schedule 7, Schedule 8, Schedule 9, Schedule 10, Schedule 11, and Schedule 12 respectively, to the Guaranty and Security Agreement and shall be deemed a part thereof for all purposes of the Guaranty and Security Agreement.

3. Each New Grantor authorizes Lender at any time and from time to time to file, transmit, or communicate, as applicable, financing statements and amendments thereto (i) describing the Collateral as “all personal property of debtor” or “all assets of debtor” or words of similar effect, (ii) describing the Collateral as being of equal or lesser scope or with greater detail, or (iii) that contain any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance. Each New Grantor also hereby ratifies any and all financing statements or amendments previously filed by Lender in any jurisdiction in connection with the Financing Agreements.

4. Each New Grantor represents and warrants to Lender, the Lender and the Bank Product Providers that this Joinder has been duly executed and delivered by such New Grantor and constitutes its legal, valid, and binding obligation, enforceable against it in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium, or other similar laws affecting creditors’ rights generally and general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

5. This Joinder is a Financing Agreement. This Joinder may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Joinder. Delivery of an executed counterpart of this Joinder by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Joinder. Any party delivering an executed counterpart of this Joinder by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Joinder but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Joinder.

6. The Guaranty and Security Agreement, as supplemented hereby, shall remain in full force and effect.

7. THIS JOINDER SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Joinder to the Guaranty and Security Agreement to be executed and delivered as of the day and year first above written.

NEW GRANTORS:

[NAME OF NEW GRANTOR]

By: _____
Name:
Title:

[NAME OF NEW GRANTOR]

By: _____
Name:
Title:

LENDER:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____
Name:
Title:

[SIGNATURE PAGE TO JOINDER NO. ___ TO GUARANTY AND SECURITY AGREEMENT]

EXHIBIT A

COPYRIGHT SECURITY AGREEMENT

This COPYRIGHT SECURITY AGREEMENT (this "Copyright Security Agreement") is made this ___ day of _____, 20___, by and among Grantors listed on the signature pages hereof (collectively, jointly and severally, "Grantors" and each individually "Grantor"), and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and as agent for the Bank Product Providers and the other Lender-Related Persons (in such capacity, together with its successors and assigns in such capacity, "Lender").

W I T N E S S E T H:

WHEREAS, pursuant to that certain Credit Agreement dated as of July ___, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among Lender, Kraus Carpet LP, an Ontario limited partnership, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership and any additional entities that hereafter become borrowers under the Credit Agreement (each, a "Borrower" and collectively, the "Borrowers") and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, the Lender and the Bank Product Providers are willing to make the financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements, and the Bank Product Agreements, but only upon the condition, among others, that Grantors shall have executed and delivered to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, that certain Guaranty and Security Agreement, dated as of July ___, 2013 (including all annexes, exhibits or schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Guaranty and Security Agreement"); and

WHEREAS, pursuant to the Guaranty and Security Agreement, Grantors are required to execute and deliver to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, this Copyright Security Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantors hereby agree as follows:

1. **DEFINED TERMS.** All initially capitalized terms used but not otherwise defined herein have the meanings given to them in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Copyright Security Agreement shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*.

2. **GRANT OF SECURITY INTEREST IN COPYRIGHT COLLATERAL.** Each Grantor hereby unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, each of the Bank Product Providers and each other Lender-Related Person, to secure the Secured Obligations, a continuing security interest (referred to in this Copyright Security Agreement as the "Security Interest") in all of such Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired or arising (collectively, the "Copyright Collateral"):

(a) all of such Grantor's Copyrights and Copyright Intellectual Property Licenses to which it is a party including those referred to on Schedule I;

(b) all renewals or extensions of the foregoing; and

(c) all products and proceeds of the foregoing, including any claim by such Grantor against third parties for past, present or future infringement of any Copyright or any Copyright exclusively licensed under any Intellectual Property License, including the right to receive damages, or the right to receive license fees, royalties, and other compensation under any Copyright Intellectual Property License.

3. SECURITY FOR SECURED OBLIGATIONS. This Copyright Security Agreement and the Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Copyright Security Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantors, or any of them, to Lender, the other Lender-Related Persons, the Bank Product Providers or any of them, whether or not they are unenforceable or not allowable due to the existence of an Insolvency Proceeding involving any Grantor.

4. SECURITY AGREEMENT. The Security Interest granted pursuant to this Copyright Security Agreement is granted in conjunction with the security interests granted to Lender, for the benefit of Lender, the Bank Product Providers and each other Lender-Related Person, pursuant to the Guaranty and Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of Lender with respect to the Security Interest in the Copyright Collateral made and granted hereby are more fully set forth in the Guaranty and Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein. To the extent there is any inconsistency between this Copyright Security Agreement and the Guaranty and Security Agreement, the Guaranty and Security Agreement shall control.

5. AUTHORIZATION TO SUPPLEMENT. Grantors shall give Lender prior written notice of no less than five (5) Business Days before filing any additional application for registration of any copyright and prompt notice in writing of any additional copyright registrations granted therefor after the date hereof. Without limiting Grantors' obligations under this Section, Grantors hereby authorize Lender unilaterally to modify this Copyright Security Agreement by amending Schedule I to include any future United States registered copyrights or applications therefor of each Grantor. Notwithstanding the foregoing, no failure to so modify this Copyright Security Agreement or amend Schedule I shall in any way affect, invalidate or detract from Lender's continuing security interest in all Collateral, whether or not listed on Schedule I.

6. COUNTERPARTS. This Copyright Security Agreement is a Financing Agreement. This Copyright Security Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Copyright Security Agreement. Delivery of an executed counterpart of this Copyright Security Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Copyright Security Agreement. Any party delivering an executed counterpart of this Copyright Security Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Copyright Security Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Copyright Security Agreement.

7. CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE PROVISION. THIS COPYRIGHT SECURITY AGREEMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Copyright Security Agreement to be executed and delivered as of the day and year first above written.

GRANTORS:

By: _____

Name:

Title:

By: _____

Name:

Title:

ACCEPTED AND ACKNOWLEDGED BY:

LENDER:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____

Name:

Title:

[SIGNATURE PAGE TO COPYRIGHT SECURITY AGREEMENT]

SCHEDULE I
TO
COPYRIGHT SECURITY AGREEMENT

COPYRIGHT REGISTRATIONS

Grantor	Country	Copyright	Registration No.	Registration Date

Copyright Licenses

EXHIBIT B

PATENT SECURITY AGREEMENT

This PATENT SECURITY AGREEMENT (this "Patent Security Agreement") is made this ___ day of _____, 20___, by and among Grantors listed on the signature pages hereof (collectively, jointly and severally, "Grantors" and each individually "Grantor"), and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and as agent for the Bank Product Providers and the other Lender-Related Persons (in such capacity, together with its successors and assigns in such capacity, "Lender").

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement dated as of July ___, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among Lender, Kraus Carpet LP, an Ontario limited partnership, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership and any additional entities that hereafter become borrowers under the Credit Agreement (each, a "Borrower" and collectively, the "Borrowers") and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, the Lender and the Bank Product Providers are willing to make the financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements, and the Bank Product Agreements, but only upon the condition, among others, that Grantors shall have executed and delivered to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, that certain Guaranty and Security Agreement, dated as of July ___, 2013 (including all annexes, exhibits or schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Guaranty and Security Agreement"); and

WHEREAS, pursuant to the Guaranty and Security Agreement, Grantors are required to execute and deliver to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, this Patent Security Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Grantor hereby agrees as follows:

1. DEFINED TERMS. All initially capitalized terms used but not otherwise defined herein have the meanings given to them in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Patent Security Agreement shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*.

2. GRANT OF SECURITY INTEREST IN PATENT COLLATERAL. Each Grantor hereby unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, each of the Bank Product Providers and each other Lender-Related Person, to secure the Secured Obligations, a continuing security interest (referred to in this Patent Security Agreement as the "Security Interest") in all of such Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired or arising (collectively, the "Patent Collateral"):

(a) all of its Patents and Patent Intellectual Property Licenses to which it is a party including those referred to on Schedule I;

(b) all divisionals, continuations, continuations-in-part, reissues, reexaminations, or extensions of the foregoing; and

(c) all products and proceeds of the foregoing, including any claim by such Grantor against third parties for past, present or future infringement of any Patent or any Patent exclusively licensed under any Intellectual Property License, including the right to receive damages, or right to receive license fees, royalties, and other compensation under any Patent Intellectual Property License.

3. SECURITY FOR SECURED OBLIGATIONS. This Patent Security Agreement and the Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Patent Security Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantors, or any of them, to Lender, the other Lender-Related Persons, the Bank Product Providers or any of them, whether or not they are unenforceable or not allowable due to the existence of an Insolvency Proceeding involving any Grantor.

4. SECURITY AGREEMENT. The Security Interest granted pursuant to this Patent Security Agreement is granted in conjunction with the security interests granted to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, pursuant to the Guaranty and Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of Lender with respect to the Security Interest in the Patent Collateral made and granted hereby are more fully set forth in the Guaranty and Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein. To the extent there is any inconsistency between this Patent Security Agreement and the Guaranty and Security Agreement, the Guaranty and Security Agreement shall control.

5. AUTHORIZATION TO SUPPLEMENT. If any Grantor shall obtain rights to any new patent application or issued patent or become entitled to the benefit of any patent application or patent for any divisional, continuation, continuation-in-part, reissue, or reexamination of any existing patent or patent application, the provisions of this Patent Security Agreement shall automatically apply thereto. Grantors shall give prompt notice in writing to Lender with respect to any such new patent rights. Without limiting Grantors' obligations under this Section, Grantors hereby authorize Lender unilaterally to modify this Patent Security Agreement by amending Schedule I to include any such new patent rights of each Grantor. Notwithstanding the foregoing, no failure to so modify this Patent Security Agreement or amend Schedule I shall in any way affect, invalidate or detract from Lender's continuing security interest in all Collateral, whether or not listed on Schedule I.

6. COUNTERPARTS. This Patent Security Agreement is a Financing Agreement. This Patent Security Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Patent Security Agreement. Delivery of an executed counterpart of this Patent Security Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Patent Security Agreement. Any party delivering an executed counterpart of this Patent Security Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Patent Security Agreement but the failure to deliver an original executed

counterpart shall not affect the validity, enforceability, and binding effect of this Patent Security Agreement.

7. CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE PROVISION. THIS PATENT SECURITY AGREEMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Patent Security Agreement to be executed and delivered as of the day and year first above written.

GRANTORS:

By: _____
Name:
Title:

By: _____
Name:
Title:

LENDER:

**ACCEPTED AND ACKNOWLEDGED BY:
WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____
Name:
Title:

[SIGNATURE PAGE TO PATENT SECURITY AGREEMENT]

SCHEDULE I
to
PATENT SECURITY AGREEMENT

Patents

Grantor	Country	Patent	Application/ Patent No.	Filing Date

Patent Licenses

EXHIBIT C

PLEDGED INTERESTS ADDENDUM

This Pledged Interests Addendum, dated as of _____, 20__ (this “Pledged Interests Addendum”), is delivered pursuant to Section 7 of the Guaranty and Security Agreement referred to below. The undersigned hereby agrees that this Pledged Interests Addendum may be attached to that certain Guaranty and Security Agreement, dated as of July __, 2013, (as amended, restated, supplemented, or otherwise modified from time to time, the “Guaranty and Security Agreement”), made by the undersigned, together with the other Grantors named therein, to **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, as Lender. Initially capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Pledged Interests Addendum shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*. The undersigned hereby agrees that the additional interests listed on Schedule I shall be and become part of the Pledged Interests pledged by the undersigned to Lender in the Guaranty and Security Agreement and any pledged company set forth on Schedule I shall be and become a “Pledged Company” under the Guaranty and Security Agreement, each with the same force and effect as if originally named therein.

This Pledged interests Addendum is a Financing Agreement. Delivery of an executed counterpart of this Pledged Interests Addendum by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Pledged Interests Addendum. If the undersigned delivers an executed counterpart of this Pledged Interests Addendum by telefacsimile or other electronic method of transmission, the undersigned shall also deliver an original executed counterpart of this Pledged Interests Addendum but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Pledged Interests Addendum.

The undersigned hereby certifies that the representations and warranties set forth in Section 6 of the Guaranty and Security Agreement of the undersigned are true and correct as to the Pledged Interests listed herein on and as of the date hereof.

THIS PLEDGED INTERESTS ADDENDUM SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned has caused this Pledged Interests Addendum to be executed and delivered as of the day and year first above written.

[_____]

By: _____

Name:

Title:

SCHEDULE I
TO
PLEDGED INTERESTS ADDENDUM

Pledged Interests

Name of Grantor	Name of Pledged Company	Number of Shares/Units	Class of Interests	Percentage of Class Owned	Certificate Nos.

EXHIBIT D

TRADEMARK SECURITY AGREEMENT

This TRADEMARK SECURITY AGREEMENT (this "Trademark Security Agreement") is made this ___ day of _____, 20 __, by and among Grantors listed on the signature pages hereof (collectively, jointly and severally, "Grantors" and each individually "Grantor"), and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and as agent for the Bank Product Providers and the other Lender-Related Persons (in such capacity, together with its successors and assigns in such capacity, "Lender").

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement dated as of July __, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among Lender, Kraus Carpet LP, an Ontario limited partnership, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership and any additional entities that hereafter become borrowers under the Credit Agreement (each, a "Borrower" and collectively, the "Borrowers") and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, the Lender and the Bank Product Providers are willing to make the financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements, and the Bank Product Agreements, but only upon the condition, among others, that Grantors shall have executed and delivered to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, that certain Guaranty and Security Agreement, dated as of July __, 2013 (including all annexes, exhibits or schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Guaranty and Security Agreement"); and

WHEREAS, pursuant to the Guaranty and Security Agreement, Grantors are required to execute and deliver to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, this Trademark Security Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Grantor hereby agrees as follows:

1. **DEFINED TERMS.** All initially capitalized terms used but not otherwise defined herein have the meanings given to them in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Trademark Security Agreement shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*.

2. **GRANT OF SECURITY INTEREST IN TRADEMARK COLLATERAL.** Each Grantor hereby unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, each of the Bank Product Providers and each other Lender-Related Person, to secure the Secured Obligations, a continuing security interest (referred to in this Trademark Security Agreement as the "Security Interest") in all of such Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired or arising (collectively, the "Trademark Collateral"):

(a) all of its Trademarks and Trademark Intellectual Property Licenses to which it is a party including those referred to on Schedule I;

(b) all goodwill of the business connected with the use of, and symbolized by, each Trademark and each Trademark Intellectual Property License; and

(c) all products and proceeds (as that term is defined in the Code) of the foregoing, including any claim by such Grantor against third parties for past, present or future (i) infringement or dilution of any Trademark or any Trademarks exclusively licensed under any Intellectual Property License, including right to receive any damages, (ii) injury to the goodwill associated with any Trademark, or (iii) right to receive license fees, royalties, and other compensation under any Trademark Intellectual Property License.

3. SECURITY FOR SECURED OBLIGATIONS. This Trademark Security Agreement and the Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Trademark Security Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantors, or any of them, to Lender, the other Lender-Related Persons, the Bank Product Providers or any of them, whether or not they are unenforceable or not allowable due to the existence of an Insolvency Proceeding involving any Grantor.

4. SECURITY AGREEMENT. The Security Interest granted pursuant to this Trademark Security Agreement is granted in conjunction with the security interests granted to Lender, for the benefit of Lender, the Bank Product Providers and each other Lender-Related Person, pursuant to the Guaranty and Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of Lender with respect to the Security Interest in the Trademark Collateral made and granted hereby are more fully set forth in the Guaranty and Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein. To the extent there is any inconsistency between this Trademark Security Agreement and the Guaranty and Security Agreement, the Guaranty and Security Agreement shall control.

5. AUTHORIZATION TO SUPPLEMENT. If any Grantor shall obtain rights to any new trademarks, the provisions of this Trademark Security Agreement shall automatically apply thereto. Grantors shall give prompt notice in writing to Lender with respect to any such new trademarks or renewal or extension of any trademark registration. Without limiting Grantors' obligations under this Section, Grantors hereby authorize Lender unilaterally to modify this Trademark Security Agreement by amending Schedule I to include any such new trademark rights of each Grantor. Notwithstanding the foregoing, no failure to so modify this Trademark Security Agreement or amend Schedule I shall in any way affect, invalidate or detract from Lender's continuing security interest in all Collateral, whether or not listed on Schedule I.

6. COUNTERPARTS. This Trademark Security Agreement is a Financing Agreement. This Trademark Security Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Trademark Security Agreement. Delivery of an executed counterpart of this Trademark Security Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Trademark Security Agreement. Any party delivering an executed counterpart of this Trademark Security Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Trademark Security Agreement but the failure to deliver

an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Trademark Security Agreement.

7. CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE PROVISION. THIS TRADEMARK SECURITY AGREEMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Trademark Security Agreement to be executed and delivered as of the day and year first above written.

GRANTORS:

By: _____
Name:
Title:

By: _____
Name:
Title:

LENDER:

ACCEPTED AND ACKNOWLEDGED BY:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____
Name:
Title:

[SIGNATURE PAGE TO TRADEMARK SECURITY AGREEMENT]

SCHEDULE I
to
TRADEMARK SECURITY AGREEMENT

Trademark Registrations/Applications

Grantor	Country	Mark	Application/ Registration No.	App/Reg Date

Trade Names

Common Law Trademarks

Trademarks Not Currently In Use

Trademark Licenses

TRADEMARK SECURITY AGREEMENT

This TRADEMARK SECURITY AGREEMENT (this "Trademark Security Agreement") is made this 6th day of ~~July~~ ^{August}, 2013, by and between Barrett Carpet Mills, Inc., a Georgia corporation (the "Grantor"), and **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as lender and as agent for the Bank Product Providers and the other Lender-Related Persons (in such capacity, together with its successors and assigns in such capacity, "Lender").

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement dated as of July __, 2013 (as amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among Lender, the Grantor, Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership, Kraus Carpet LP, an Ontario limited partnership, Kraus USA, Inc., a Delaware corporation, (each, a "Borrower" and collectively, the "Borrowers") and certain of their Affiliates, Lender has agreed to make certain financial accommodations available to Borrowers from time to time pursuant to the terms and conditions thereof; and

WHEREAS, the Lender and the Bank Product Providers are willing to make the financial accommodations to Borrowers as provided for in the Credit Agreement, the other Financing Agreements, and the Bank Product Agreements, but only upon the condition, among others, that Grantor shall have executed and delivered to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, that certain Guaranty and Security Agreement, dated as of July __, 2013 (including all annexes, exhibits or schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Guaranty and Security Agreement"); and

WHEREAS, pursuant to the Guaranty and Security Agreement, Grantor is required to execute and deliver to Lender, for the benefit of Lender, the Bank Product Providers and the other Lender-Related Persons, this Trademark Security Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor hereby agrees as follows:

1. DEFINED TERMS. All initially capitalized terms used but not otherwise defined herein have the meanings given to them in the Guaranty and Security Agreement or, if not defined therein, in the Credit Agreement, and this Trademark Security Agreement shall be subject to the rules of construction set forth in Section 1(b) of the Guaranty and Security Agreement, which rules of construction are incorporated herein by this reference, *mutatis mutandis*.

2. GRANT OF SECURITY INTEREST IN TRADEMARK COLLATERAL. Grantor hereby unconditionally grants, assigns, and pledges to Lender, for the benefit of Lender, each of the Bank Product Providers and each other Lender-Related Person, to secure the Secured Obligations, a continuing security interest (referred to in this Trademark Security Agreement as the "Security Interest") in all of Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired or arising (collectively, the "Trademark Collateral"):

(a) all of its Trademarks and Trademark Intellectual Property Licenses to which it is a party including those referred to on Schedule I;

(b) all goodwill of the business connected with the use of, and symbolized by, each Trademark and each Trademark Intellectual Property License; and

(c) all products and proceeds (as that term is defined in the Code) of the foregoing, including any claim by Grantor against third parties for past, present or future (i) infringement or dilution of any Trademark or any Trademarks exclusively licensed under any Intellectual Property License, including right to receive any damages, (ii) injury to the goodwill associated with any Trademark, or (iii) right to receive license fees, royalties, and other compensation under any Trademark Intellectual Property License.

3. SECURITY FOR SECURED OBLIGATIONS. This Trademark Security Agreement and the Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Trademark Security Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantor to Lender, the other Lender-Related Persons, the Bank Product Providers or any of them, whether or not they are unenforceable or not allowable due to the existence of an Insolvency Proceeding involving Grantor.

4. SECURITY AGREEMENT. The Security Interest granted pursuant to this Trademark Security Agreement is granted in conjunction with the security interests granted to Lender, for the benefit of Lender, the Bank Product Providers and each other Lender-Related Person, pursuant to the Guaranty and Security Agreement. Grantor hereby acknowledges and affirms that the rights and remedies of Lender with respect to the Security Interest in the Trademark Collateral made and granted hereby are more fully set forth in the Guaranty and Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein. To the extent there is any inconsistency between this Trademark Security Agreement and the Guaranty and Security Agreement, the Guaranty and Security Agreement shall control.

5. AUTHORIZATION TO SUPPLEMENT. If Grantor shall obtain rights to any new trademarks, the provisions of this Trademark Security Agreement shall automatically apply thereto. Grantor shall give prompt notice in writing to Lender with respect to any such new trademarks or renewal or extension of any trademark registration. Without limiting Grantor's obligations under this Section, Grantor hereby authorizes Lender unilaterally to modify this Trademark Security Agreement by amending Schedule I to include any such new trademark rights of Grantor. Notwithstanding the foregoing, no failure to so modify this Trademark Security Agreement or amend Schedule I shall in any way affect, invalidate or detract from Lender's continuing security interest in all Collateral, whether or not listed on Schedule I.

6. COUNTERPARTS. This Trademark Security Agreement is a Financing Agreement. This Trademark Security Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Trademark Security Agreement. Delivery of an executed counterpart of this Trademark Security Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Trademark Security Agreement. Any party delivering an executed counterpart of this Trademark Security Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Trademark Security Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Trademark Security Agreement.

7. CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE PROVISION. THIS TRADEMARK SECURITY AGREEMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE SET FORTH IN SECTION 25 OF THE SECURITY AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Trademark Security Agreement to be executed and delivered as of the day and year first above written.

GRANTOR:

BARRETT CARPET MILLS, INC.

By: 

Name: PATRICIA SALTYS
Title: CFO

LENDER:

ACCEPTED AND ACKNOWLEDGED BY:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____

Name:
Title:

[SIGNATURE PAGE TO TRADEMARK SECURITY AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have caused this Trademark Security Agreement to be executed and delivered as of the day and year first above written.

GRANTOR:

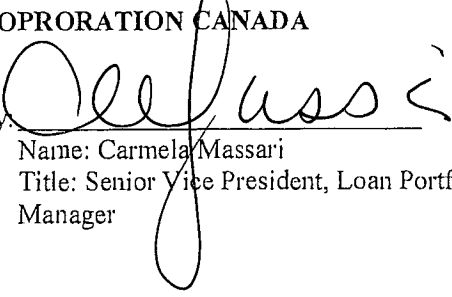
BARRETT CARPET MILLS, INC.

By: _____
Name:
Title:

LENDER:

ACCEPTED AND ACKNOWLEDGED BY:

WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA

By: 
Name: Carmela Massari
Title: Senior Vice President, Loan Portfolio
Manager

[SIGNATURE PAGE TO TRADEMARK SECURITY AGREEMENT]

SCHEDULE I
to
TRADEMARK SECURITY AGREEMENT

Trademark Registrations

Grantor	Country	Mark	Registration No.	Registration Date
Barrett Carpet Mills, Inc.	United States of America	RAVELGUARD	2352275	May 23, 2000
Barrett Carpet Mills, Inc.	United States of America	ZIPPERGUARD	2224794	February 16, 1999
Barrett Carpet Mills, Inc.	United States of America	RAVELGUARD	2224793	February 16, 1999



DEPOSIT ACCOUNT CONTROL AGREEMENT

(Access Restricted Immediately)

This **Deposit Account Control Agreement** (the "Agreement"), dated as of the date specified on the initial signature page of this Agreement, is entered into by and among **Kraus USA, Inc.** ("Company"), **Wells Fargo Capital Finance Corporation Canada as Lender and Agent for its Affiliates and Assigns** ("Secured Party") and **Wells Fargo Bank, National Association** ("Bank"), and sets forth the rights of Secured Party and the obligations of Bank with respect to the deposit accounts of Company at Bank identified at the end of this Agreement as the Collateral Accounts (each hereinafter referred to individually as a "Collateral Account" and collectively as the "Collateral Accounts"). Each account designated as a Collateral Account includes, for purposes of this Agreement, and without the necessity of separately listing subaccount numbers, all subaccounts presently existing or hereafter established for deposit reporting purposes and integrated with the Collateral Account by an arrangement in which deposits made through subaccounts are posted only to the Collateral Account. Each Collateral Account operated as a "Multi-Currency Account" is a deposit account maintained with Bank's Cayman Islands Branch, which may be denominated in foreign currency.

- 1. Secured Party's Interest in Collateral Accounts.** Secured Party represents that it is either (i) a lender who has extended credit to Company and has been granted a security interest in the Collateral Accounts or (ii) such a lender and the agent for a group of such lenders. Company hereby confirms the security interest granted by Company to Secured Party in all of Company's right, title and interest in and to the Collateral Accounts and all sums now or hereafter on deposit in or payable or withdrawable from the Collateral Accounts (the "Collateral Account Funds"). In furtherance of the intentions of the parties hereto, this Agreement constitutes written notice by Secured Party to Bank and Bank's Cayman Islands Branch of Secured Party's security interest in the Collateral Accounts.
- 2. Secured Party Control.** Bank, Secured Party and Company each agree that Bank will comply with instructions given to Bank by Secured Party directing disposition of funds in the Collateral Accounts ("Disposition Instructions") without further consent by Company. Except as otherwise required by law, Bank will not agree with any third party to comply with instructions for disposition of funds in the Collateral Accounts originated by such third party.
- 3. No Company Access to Collateral Accounts; Merchant Services Debits.** Unless separately agreed to in writing by Secured Party, Company agrees that it will not be able to make debits or withdrawals from or otherwise have access to the Collateral Accounts or any Collateral Account Funds, and that Secured Party will have exclusive access to the Collateral Accounts and Collateral Account Funds. However, notwithstanding anything to the contrary in this Agreement, Company and Secured Party each agree that Bank may accept and process to any of the Collateral Accounts automated clearing house ("ACH") debits initiated by any merchant card processor ("Processor") in furtherance of its credit card processing arrangements with Company as permitted in any merchant application or processing agreement between Company and Processor, so long as Secured Party gives Bank written approval to accept and process debits by such Processor on an ongoing basis; provided, however, that Bank will have no duty or obligation to inquire as to the authority of Processor to initiate debits under Processor's credit card processing arrangements with Company or to determine whether such arrangements are in effect.

- 4. Transfers in Response to Disposition Instructions.** Notwithstanding the provisions of the "Secured Party Control" section of this Agreement, unless Bank separately agrees in writing to the contrary, Bank will have no obligation to disburse funds in response to Disposition Instructions other than by the appropriate disbursement method expressly set forth in this Section 4. If at the time this Agreement is originally executed, Secured Party has fully completed wire transfer instructions for a transfer destination account ("Destination Account") on the initial signature page of this Agreement, including the Destination Account number and the name and ABA number of the financial institution at which the Destination Account is maintained, then Bank agrees, on each day on which Bank is open to conduct its regular banking business, other than a Saturday, Sunday or public holiday (each a "Business Day") during the term of this Agreement, to transfer to the Destination Account by standing wire (or alternative funds transfer method acceptable to Bank in its sole discretion) the full amount of the collected and available balance in the Collateral Accounts at the beginning of such Business Day. Secured Party may at any time instruct Bank to discontinue transferring funds to the original Destination Account and begin transferring funds to a new Destination Account, in accordance with the notice provisions of this Agreement. Bank will comply with such notice within a reasonable period of time not to exceed two (2) Business Days. Except as otherwise expressly set forth in this Section 4, Bank will have no obligation to disburse funds in response to Disposition Instructions other than by cashier's check payable to Secured Party. Any disposition of funds which Bank makes under this Section 4 or otherwise in response to Disposition Instructions is subject to Bank's standard policies, procedures and documentation governing the type of disposition made; provided, however, that in no circumstances will any such disposition require Company's consent. To the extent any Collateral Account is a certificate of deposit or time deposit, Bank will be entitled to deduct any applicable early withdrawal penalty prior to disbursing funds from such account in response to Disposition Instructions. To the extent Secured Party requests that funds be transferred from any Collateral Account in a currency different from the currency denomination of the Collateral Account, the funds transfer will be made after currency conversion at Bank's then current buying rate for exchange applicable to the new currency.
- 5. Lockboxes.** To the extent items deposited to a Collateral Account have been received in one or more post office lockboxes maintained for Company by Bank (each a "Lockbox") and processed by Bank for deposit, Company acknowledges that Company has granted Secured Party a security interest in all such items (the "Remittances"). During the term of this Agreement, Company will have no right or ability to instruct Bank regarding the receipt, processing or deposit of Remittances, and Secured Party alone will have the right and ability to so instruct Bank. Company and Secured Party acknowledge and agree that Bank's operation of each Lockbox, and the receipt, retrieval, processing and deposit of Remittances, will at all times be governed by Bank's Master Agreement for Treasury Management Services or other applicable treasury management services agreement, and by Bank's applicable standard lockbox Service Description.
- 6. Balance Reports and Bank Statements.** Bank agrees, at the request of Secured Party on any Business Day, to make available to Secured Party a report ("Balance Report") showing the opening available balance in the Collateral Accounts as of the beginning of such Business Day, by a transmission method determined by Bank, in Bank's sole discretion. Company expressly consents to this transmission of information. Bank will, on receiving a written request from Secured Party, send to Secured Party by United States mail, at the address indicated for Secured Party after its signature to this Agreement, duplicate copies of all periodic statements on the Collateral Accounts which are subsequently sent to Company.
- 7. Returned Items.** Secured Party and Company understand and agree that the face amount ("Returned Item Amount") of each Returned Item will be paid by Bank debiting the Company's

deposit account with Bank identified on the initial signature page of this Agreement as the Operating Account ("Operating Account"), without prior notice to Secured Party or Company. As used in this Agreement, the term "Returned Item" means (i) any item deposited to a Collateral Account and returned unpaid, whether for insufficient funds or for any other reason, and without regard to timeliness of the return or the occurrence or timeliness of any drawee's notice of non-payment; (ii) any item subject to a claim against Bank of breach of transfer or presentment warranty under the Uniform Commercial Code (as adopted in the applicable state) or Regulation CC (12 C.F.R. §229), as in effect from time to time; (iii) any automated clearing house ("ACH") entry credited to a Collateral Account and returned unpaid or subject to an adjustment entry under applicable clearing house rules, whether for insufficient funds or for any other reason, and without regard to timeliness of the return or adjustment; (iv) any credit to a Collateral Account from a merchant card transaction, against which a contractual demand for chargeback has been made; and (v) any credit to a Collateral Account made in error. Company agrees to pay all Returned Item Amounts immediately on demand, without setoff or counterclaim, to the extent there are not sufficient funds in the Operating Account to cover the Returned Item Amounts on the day Bank attempts to debit them from the Operating Account. Secured Party agrees to pay all Returned Item Amounts within fifteen (15) calendar days after demand, without setoff or counterclaim, to the extent that (i) the Returned Item Amounts are not paid in full by Company within five (5) calendar days after demand on Company by Bank, and (ii) Secured Party has received proceeds from the corresponding Returned Items under this Agreement.

8. [Reserved.]

9. Bank Fees. Company agrees to pay all Bank's fees and charges for the maintenance and administration of the Collateral Accounts and for the treasury management and other account services provided with respect to the Collateral Accounts and any Lockboxes (collectively "Bank Fees"), including, but not limited to, the fees for (a) Balance Reports provided on the Collateral Accounts, (b) funds transfer services received with respect to the Collateral Accounts, (c) lockbox processing services, (d) Returned Items, (e) funds advanced to cover overdrafts in the Collateral Accounts (but without Bank being in any way obligated to make any such advances), and (f) duplicate bank statements. The Bank Fees will be paid by Bank debiting the Operating Account on the Business Day that the Bank Fees are due, without notice to Secured Party or Company. If there are not sufficient funds in the Operating Account to cover fully the Bank Fees on the Business Day Bank attempts to debit them from the Operating Account, such shortfall or the amount of such Bank Fees will be paid by Company to Bank, without setoff or counterclaim, within five (5) calendar days after demand from Bank. Secured Party agrees to pay any Bank Fees within fifteen (15) calendar days after demand, without setoff or counterclaim, to the extent such Bank Fees are not paid in full by Company within five (5) calendar days after demand on Company by Bank.

10. Account Documentation. Except as specifically provided in this Agreement, Secured Party and Company agree that the Collateral Accounts will be subject to, and Bank's operation of the Collateral Accounts will be in accordance with, the terms of Bank's applicable deposit account agreement governing the Collateral Accounts ("Account Agreement"). In addition to the Account Agreement, each Collateral Account operated as a "Multi-Currency Account" will be governed by Bank's Master Agreement for Treasury Management Services or other applicable treasury management services agreement, and by Bank's Multi-Currency Account Service Description in effect from time to time. All documentation referenced in this Agreement as governing any Collateral Account or the processing of any Remittances is hereinafter collectively referred to as the "Account Documentation". In the event of any conflict between this Agreement and the Account Documentation, this Agreement will control.

11. Partial Subordination of Bank's Rights. Bank hereby subordinates to the security interest of Secured Party in the Collateral Accounts (i) any security interest which Bank may have or acquire in the Collateral Accounts, and (ii) any right which Bank may have or acquire to set off

or otherwise apply any Collateral Account Funds against the payment of any indebtedness from time to time owing to Bank from Company, except for debits to the Collateral Accounts permitted under this Agreement for the payment of Returned Item Amounts or Bank Fees.

- 12. Bankruptcy Notice; Effect of Filing.** If Bank at any time receives notice of the commencement of a bankruptcy case or other insolvency or liquidation proceeding by or against Company, Bank will continue to comply with its obligations under this Agreement, except to the extent that any action required of Bank under this Agreement is prohibited under applicable bankruptcy laws or regulations or is stayed pursuant to the automatic stay imposed under the United States Bankruptcy Code or by order of any court or agency. With respect to any obligation of Secured Party hereunder which requires prior demand on Company, the commencement of a bankruptcy case or other insolvency or liquidation proceeding by or against Company will automatically eliminate the necessity of such demand on Company by Bank, and will immediately entitle Bank to make demand on Secured Party with the same effect as if demand had been made on Company and the time for Company's performance had expired.
- 13. Legal Process, Legal Notices and Court Orders.** Bank will comply with any legal process, legal notice or court order it receives in relation to a Collateral Account if Bank determines in its sole discretion that the legal process, legal notice or court order is legally binding on it.
- 14. Indemnification.** Company will indemnify, defend and hold harmless Bank, its officers, directors, employees, and agents (collectively, the "Indemnified Parties") from and against any and all claims, demands, losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees) (collectively "Losses and Liabilities") Bank may suffer or incur as a result of or in connection with (a) Bank complying with any binding legal process, legal notice or court order referred to in the immediately preceding section of this Agreement, (b) Bank following any instruction or request of Secured Party, including but not limited to any Disposition Instructions, or (c) Bank complying with its obligations under this Agreement, except to the extent such Losses and Liabilities are caused by Bank's gross negligence or willful misconduct. To the extent such obligations of indemnity are not satisfied by Company within five (5) days after demand on Company by Bank, Secured Party will indemnify, defend and hold harmless Bank and the other Indemnified Parties against any and all Losses and Liabilities Bank may suffer or incur as a result of or in connection with Bank following any instruction or request of Secured Party, except to the extent such Losses and Liabilities are caused by Bank's gross negligence or willful misconduct.
- 15. Bank's Responsibility.** This Agreement does not create any obligations of Bank, and Bank makes no express or implied representations or warranties with respect to its obligations under this Agreement, except for those expressly set forth herein. In particular, Bank need not investigate whether Secured Party is entitled under Secured Party's agreements with Company to give Disposition Instructions. Bank may rely on any and all notices and communications it believes are given by the appropriate party. Bank will not be liable to Company, Secured Party or any other party for any Losses and Liabilities caused by (i) circumstances beyond Bank's reasonable control (including, without limitation, computer malfunctions, interruptions of communication facilities, labor difficulties, acts of God, wars, or terrorist attacks) or (ii) any other circumstances, except to the extent such Losses and Liabilities are directly caused by Bank's gross negligence or willful misconduct. In no event will Bank be liable for any indirect, special, consequential or punitive damages, whether or not the likelihood of such damages was known to Bank, and regardless of the form of the claim or action, or the legal theory on which it is based. Any action against Bank by Company or Secured Party under or related to this Agreement must be brought within twelve (12) months after the cause of action accrues.
- 16. Termination.** This Agreement may be terminated by Secured Party or Bank at any time by either of them giving thirty (30) calendar days prior written notice of such termination to the other

parties to this Agreement at their contact addresses specified after their signatures to this Agreement; provided, however, that this Agreement may be terminated immediately upon written notice (i) from Bank to Company and Secured Party should Company or Secured Party fail to make any payment when due to Bank from Company or Secured Party under the terms of this Agreement, or (ii) from Secured Party to Bank on termination or release of Secured Party's security interest in the Collateral Accounts; provided that any notice from Secured Party under clause (ii) of this sentence must contain Secured Party's acknowledgement of the termination or release of its security interest in the Collateral Accounts. Company may not terminate this Agreement without the written consent of Secured Party. Company's and Secured Party's respective obligations to report errors in funds transfers and bank statements and to pay Returned Items Amounts and Bank Fees, as well as the indemnifications made, and the limitations on the liability of Bank accepted, by Company and Secured Party under this Agreement will continue after the termination of this Agreement with respect to all the circumstances to which they are applicable, existing or occurring before such termination, and any liability of any party to this Agreement, as determined under the provisions of this Agreement, with respect to acts or omissions of such party prior to such termination will also survive such termination. Upon any termination of this Agreement, (i) Bank will transfer all collected and available balances in the Collateral Accounts on the date of such termination in accordance with Secured Party's written instructions, and (ii) Bank will close any Lockbox and forward any mail received at the Lockbox unopened to such address as is communicated to Bank by Secured Party under the notice provisions of this Agreement for a period of three (3) months after the effective termination date, unless otherwise arranged between Secured Party and Bank, provided that Bank's fees with respect to such disposition must be prepaid directly to Bank at the time of termination by cashier's check payable to Bank or other payment method acceptable to Bank in its sole discretion.

17. **Modifications, Amendments, and Waivers.** This Agreement may not be modified or amended, or any provision thereof waived, except in a writing signed by all the parties to this Agreement.
18. **Notices.** All notices from one party to another must be in writing, must be delivered to Company, Secured Party and/or Bank at their contact addresses specified after their signatures to this Agreement, or any other address of any party communicated to the other parties in writing, and will be effective on receipt. Any notice sent by a party to this Agreement to another party must also be sent to all other parties to this Agreement. Bank is authorized by Company and Secured Party to act on any instructions or notices received by Bank if (a) such instructions or notices purport to be made in the name of Secured Party, (b) Bank reasonably believes that they are so made, and (c) they do not conflict with the terms of this Agreement as such terms may be amended from time to time, unless such conflicting instructions or notices are supported by a court order.
19. **Successors and Assigns.** Neither Company nor Secured Party may assign or transfer its rights or obligations under this Agreement to any person or entity without the prior written consent of Bank, which consent will not be unreasonably withheld or delayed. Notwithstanding the foregoing, Secured Party may transfer its rights and duties under this Agreement to (i) a transferee to which, by contract or operation of law, Secured Party transfers substantially all of its rights and duties under the financing or other arrangements between Secured Party and Company, or (ii) if Secured Party is acting as a representative in whose favor a security interest is created or provided for, a transferee that is a successor representative; provided that as between Bank and Secured Party, Secured Party will not be released from its obligations under this Agreement unless and until Bank receives any such transferee's binding written agreement to assume all of Secured Party's obligations hereunder. Bank may not assign or transfer its rights or obligations under this Agreement to any person or entity without the prior written

consent of Secured Party, which consent will not be unreasonably withheld or delayed; provided, however, that no such consent will be required if such assignment or transfer takes place as part of a merger, acquisition or corporate reorganization affecting Bank.

20. **Governing Law.** This Agreement will be governed by and be construed in accordance with the laws of the state of California, without regard to conflict of laws principles. California will also be deemed to be Bank's jurisdiction, for purposes of Article 9 of the Uniform Commercial Code as it applies to this Agreement.
21. **Severability.** To the extent that the terms of this Agreement are inconsistent with, or prohibited or unenforceable under, any applicable law or regulation, they will be deemed ineffective only to the extent of such prohibition or unenforceability, and will be deemed modified and applied in a manner consistent with such law or regulation. Any provision of this Agreement which is deemed unenforceable or invalid in any jurisdiction will not affect the enforceability or validity of the remaining provisions of this Agreement or the same provision in any other jurisdiction.
22. **Counterparts.** This Agreement may be executed in any number of counterparts each of which will be an original with the same effect as if the signatures were on the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by telecopier or electronic image scan transmission (such as a "pdf" file) will be effective as delivery of a manually executed counterpart of the Agreement.
23. **Entire Agreement.** This Agreement, together with the Account Documentation, contains the entire and only agreement among all the parties to this Agreement and between Bank and Company, on the one hand, and Bank and Secured Party, on the other hand, with respect to (a) the interest of Secured Party in the Collateral Accounts and Collateral Account Funds, and (b) Bank's obligations to Secured Party in connection with the Collateral Accounts and Collateral Account Funds.

[SIGNATURE PAGES FOLLOW]

This Agreement has been signed by the duly authorized officers or representatives of Company, Secured Party and Bank on the date specified below.

Date: June 24, 2014

Collateral Account Numbers: 412-2806011
Lockbox Address (if any): N/A
Operating Account Number: TBD
Destination Account Number: 7387637
Bank of Destination Account: TD Canada Trust
55 King Street West
Toronto, Ontario, Canada M5K 1A2
Transit Number: 10202
Swift Number: TDOMCATTOR

KRAUS USA, INC.

By: 

Name: Patricia Saltys

Title:

Address for Notices:

160 Amsler Avenue

Shippenville, PA 16254

Attention: Patricia Saltys

**WELLS FARGO CAPITAL FINANCE
CANADA as LENDER and AGENT FOR ITS
AFFILIATES AND ASSIGNS**

By: 

Name: Carmela Massari

Title:

**Carmela Massari
Senior Vice President
Wells Fargo Capital Finance
Corporation Canada**

Address for Notices:

2450 Colorado Ave. Suite 3000 West

Santa Monica, CA 90404

Attention: WFCF DACA Team

Email: WFCFDACAteam@wellsfargo.com

[SIGNATURE PAGES CONTINUE]

**WELLS FARGO BANK, NATIONAL
ASSOCIATION**

By: *Alicia McCrimon*

Name: Alicia McCrimon

Title: Cross Sell Treasury Officer

Address for Notices:

1100 Abernathy Rd. NE Suite 1600

Atlanta, GA 30328

Attention: Alicia McCrimon

with a copy to:

EN
ATT

Deed Doc: SD
Recorded 08/14/2013 01:23PM
Georgia Intangible Tax Paid: \$25,000.00
MELICA KENDRICK
Clerk Superior Court, WHITFIELD County, Ga.
Bk 05930 Pg 0225-0243

doc # 7787

Return to:
HODGES & BROADAWAY
678.445.4926
2230 Towne Lake Parkway
Building 200, Suite 120
Woodstock, GA 30189 HD 96.1891

Recording Requested By,
And After Recording, Return To:

Valerie L. Combs
Troutman Sanders LLP
600 Peachtree Street NE
Suite 5200
Atlanta, Georgia 30316

**DEED TO SECURE DEBT AND
ASSIGNMENT OF RENTS AND LEASES**

THIS INSTRUMENT SECURES FUTURE ADVANCES AND/OR REVOLVING ADVANCES.

THIS DEED TO SECURE DEBT AND ASSIGNMENT OF RENTS AND LEASES (this "Security Deed") is executed as of August 6, 2013, by BARRETT CARPET MILLS, INC., a Georgia corporation ("Grantor"), having an address at 2216 Abutment Road, Dalton Georgia 30721, to WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, an Ontario corporation ("Lender"), as Lender and Agent for its Affiliates and assigns, having an address at 40 King Street West, Suite 2500, Toronto, Ontario, Canada, M5H 3Y2. Capitalized terms used herein and not otherwise defined shall have the meaning given to them in the Credit Agreement (as defined below).

ARTICLE I. DEED TO SECURE DEBT

1.1 Grant. FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, and for the purposes and upon the terms and conditions in this Security Deed, Grantor irrevocably grants, bargains, sells, assigns, releases, transfers, pledges, warrants, conveys and sets over unto Lender with a power of sale, and grants to Lender a security interest in, all of Grantor's right, title and interest in and to the property described below, and confirms that this Security Deed constitutes a valid first priority security title to and security interest in the following property: (a) all real property located in Whitfield County, Georgia, and described on Exhibit A attached hereto; (b) all easements, rights-of-way and rights used in connection with or as a means of access to any portion of said real property; (c) all tenements, hereditaments and appurtenances thereof and thereto; (d) all right, title and interest of Grantor, now owned or hereafter acquired, in and to any land lying within the right-of-way of any street, open or proposed, adjoining said real property, and any and all sidewalks, alleys and strips and gores of land adjacent to or used in connection with said real property; (e) all buildings, improvements and landscaping now or hereafter erected or located on said real property; (f) all development rights, governmental or quasi-governmental licenses, permits or approvals, zoning rights and other similar rights or interests which relate to the development, use or operation of, or that benefit or are appurtenant to, said real property; (g) all mineral rights, oil and gas rights, air rights, water or water

INTANGIBLES TAX IN THE MAXIMUM AMOUNT OF \$25,000.00 IS BEING PAID IN CONNECTION WITH THE RECORDING OF THIS DEED TO SECURE DEBT.

rights, including without limitation, all wells, canals, ditches and reservoirs of any nature and all rights thereto, appurtenant to or associated with said real property, whether decreed or undeclared, tributary or non-tributary, surface or underground, appropriated or unappropriated, and all shares of stock in any water, canal, ditch or reservoir company, and all well permits, water service contracts, drainage rights and other evidences of any such rights; and (h) all interest or estate which Grantor now has or may hereafter acquire in said real property and all additions and accretions thereto, and all awards or payments made for the taking of all or any portion of said real property by eminent domain or any proceeding or purchase in lieu thereof, or any damage to any portion of said real property (collectively, the "Subject Property"). The listing of specific rights or property shall not be interpreted as a limitation of general terms.

TO HAVE AND TO HOLD the Subject Property and all parts, rights, members and appurtenances thereof, to the use, benefit and behoof of Lender and the successors and assigns of Lender, IN FEE SIMPLE forever.

This Security Deed is intended to operate and is to be construed as a deed passing the title to the Subject Property to Lender and is made under those provisions of the existing laws of the State of Georgia relating to deeds to secure debt, and not as a mortgage.

1.2 Address. The address of the Subject Property (if known) is: 2216 Abutment Road, Dalton, Georgia. Neither the failure to designate an address nor any inaccuracy in the address designated shall affect the validity or priority of the security title of this Security Deed on the Subject Property as described on Exhibit A. In the event of any conflict between the provisions of Exhibit A and said address, Exhibit A shall control.

ARTICLE II. OBLIGATIONS SECURED

2.1 Obligations Secured. Grantor makes this grant and assignment for the purpose of securing the following obligations (each, a "Secured Obligation" and collectively, the "Secured Obligations"):

(a) payment to Lender of all sums at any time owing and performance of any and all other obligations arising under or in connection with that certain Credit Agreement dated August 6, 2013 (the "Credit Agreement"), by and among Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership, Kraus Carpet LP, an Ontario limited partnership, Kraus USA, Inc., a Delaware corporation, Grantor, Northstate Carpet Mills PTY Ltd., a Commonwealth of Australia limited company, and Lender in its capacity as lender and agent for its Affiliates (as defined therein) and assigns, evidencing a loan in the maximum principal amount of Fifty Million Canadian Dollars (\$50,000,000.00), with interest as provided therein, together with the payment and performance of any and all Loans (as defined in the Credit Agreement), Letter of Credit Accommodations (as defined in the Credit Agreement) and all other obligations, liabilities and indebtedness of every kind, nature and description owing by each Credit Party under the Credit Agreement to Lender and/or its Affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, arising under, from or in connection with, the Credit Agreement and any other notes, guarantees, security agreements, collateral mortgages/charges of land/deeds, Lender Swap Agreements (as defined in the Credit Agreement) and other acknowledgements, waivers, certificates, consents, use, priority, subordination, intercreditor, or non-disturbance agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by any Credit Party or any Obligor in connection with the Credit Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced (collectively, "Financing Agreements") and any Lender Swap Agreement (as defined in the Credit Agreement), any Cash Management Products (as defined in the Credit Agreement), whether now existing or hereafter arising, arising before, during or after the initial or any renewal term of the Credit Agreement or after the commencement of any proceeding with respect to any Credit Party under the *United States Bankruptcy Code*, the BIA, the

CCAA, the *Winding-Up and Restructuring Act* (Canada), the *Business Corporations Act* (Ontario) or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender;

(b) payment and performance of all other Obligations pursuant to the Credit Agreement;

(c) payment and performance of all obligations of Grantor under this Security Deed, together with all advances, payments or other expenditures made by Lender as or for the payment or performance of any such obligations of Grantor; and

(d) payment and performance of all future advances and other obligations that the then record owner of the Subject Property may agree to pay and/or perform (whether as principal, surety or guarantor) for the benefit of Lender, when any such advance or other obligation is evidenced by a writing which recites that it is secured by this Security Deed; and

(e) all modifications, extensions and renewals of any of the Secured Obligations (including without limitation, (i) modifications, extensions or renewals at a different rate of interest, or (ii) deferrals or accelerations of the required principal payment dates or interest payment dates or both, in whole or in part), however evidenced, whether or not any such modification, extension or renewal is evidenced by a new or additional promissory note or notes.

2.2 Obligations. The term "obligations" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, joint or several, including without limitation, all principal, interest, charges, including prepayment charges and late charges, and loan fees at any time accruing or assessed on any Secured Obligation.

2.3 Incorporation. All terms of the Secured Obligations are incorporated herein by this reference. All persons who may have or acquire an interest in the Subject Property are hereby deemed to have notice of the terms of the Secured Obligations and to have notice, if provided therein, that: (a) the Credit Agreement or any other Secured Obligation may permit borrowing, repayment and reborrowing; and (b) the rate of interest on one or more of the Secured Obligations may vary from time to time.

2.4 Revolving Loan Accounts. If this Security Deed secures a "revolving loan account" as defined in Official Code of Georgia Annotated §44-14-3, payment of all amounts outstanding on the Secured Obligations from time to time shall not cancel or release this Security Deed, and re-advances shall be secured to the same extent as original obligations hereunder.

ARTICLE III. ASSIGNMENT OF RENTS

3.1 Assignment. For the purposes and upon the terms and conditions set forth herein, as an additional source of repayment of the Secured Obligations, Grantor irrevocably and absolutely assigns to Lender all of Grantor's right, title and interest in, to and under all leases, licenses, rental agreements and other agreements of any kind relating to the use or occupancy of any of the Subject Property, whether existing as of the date hereof or at any time hereafter entered into, together with all guarantees of and security for any tenant's or lessee's performance thereunder, and all amendments, extensions, renewals and modifications thereto (each, a "Lease" and collectively, the "Leases"), together with any and all other rents, issues and profits of the Subject Property (collectively, "Rents"). This assignment shall not impose

upon Lender any duty to produce Rents from the Subject Property, nor cause Lender to be: (a) a "mortgagee in possession" for any purpose; (b) responsible for performing any of the obligations of the lessor or landlord under any Lease; or (c) responsible for any waste committed by any person or entity at any time in possession of the Subject Property or any part thereof, or for any dangerous or defective condition of the Subject Property, or for any negligence in the management, upkeep, repair or control of the Subject Property. This is an absolute assignment, not an assignment for security only, and Lender's right to Rents is not contingent upon and may be exercised without taking possession of the Subject Property. Grantor agrees to execute and deliver to Lender, within five (5) days of Lender's written request, such additional documents as Lender may reasonably request to further evidence the assignment to Lender of any and all Leases and Rents. Lender, at Lender's option and without notice, may notify any lessee or tenant of this assignment of the Leases and Rents.

3.2 Protection of Security. To protect the Lender's interest in this assignment, Grantor agrees:

(a) At Grantor's sole cost and expense: (i) to perform each obligation to be performed by the lessor or landlord under each Lease and to enforce or secure the performance of each obligation to be performed by the lessee or tenant under each Lease; (ii) not to modify any Lease in any material respect, nor accept surrender under or terminate the term of any Lease; (iii) not to anticipate the Rents under any Lease; and (iv) not to waive or release any lessee or tenant of or from any Lease obligations. Grantor assigns to Lender all of Grantor's right and power to modify the terms of any Lease, to accept a surrender under or terminate the term of or anticipate the Rents under any Lease, and to waive or release any lessee or tenant of or from any Lease obligations, and any attempt on the part of Grantor to exercise any such rights or powers without Lender's prior written consent shall be a breach of the terms hereof.

(b) At Grantor's sole cost and expense, to defend any action in any manner connected with any Lease or the obligations thereunder, and to pay all costs of Lender, including reasonable attorneys' fees, in any such action in which Lender may appear.

(c) That, should Grantor fail to do any act required to be done by Grantor under a Lease, then Lender, but without obligation to do so and without notice to Grantor and without releasing Grantor from any obligation hereunder, may make or do the same in such manner and to such extent as Lender deems necessary to protect its rights and interests hereunder, and, in exercising such powers, Lender may employ attorneys and other agents, and Grantor shall pay necessary costs and reasonable attorneys' fees incurred by Lender, or its agents, in the exercise of the powers granted herein. Grantor shall give prompt notice to Lender of any default by any lessee or tenant under any Lease, and of any notice of default on the part of Grantor under any Lease received from a lessee or tenant thereunder, together with an accurate and complete copy thereof.

(d) To pay to Lender immediately upon demand all sums expended under the authority hereof, including reasonable attorneys' fees, together with interest thereon at the highest rate per annum payable under any Secured Obligation, and the same, at Lender's option, may be added to any Secured Obligation and shall be secured by this Security Deed.

3.3 Revocable License. Lender confers upon Grantor a revocable license ("License") to collect and retain the Rents as, but not before, they come due and payable, until the occurrence of any Event of Default. Upon the occurrence of any Event of Default, the License shall be automatically revoked, and Lender may, at Lender's option and without notice, either in person or by agent, with or without bringing any action, or by a receiver to be appointed by a court: (a) enter, take possession of, manage and operate the Subject Property or any part thereof; (b) make, cancel, enforce or modify any Lease; (c) obtain and evict tenants, fix or modify Rents, and do any acts which Lender deems proper to protect the security hereof; and (d) either with or without taking possession of the Subject Property, in its own name, sue for or otherwise collect and receive all Rents, including those past due and unpaid, and apply the

same in accordance with the provisions of this Security Deed. The entering and taking possession of the Subject Property, the collection of Rents and the application thereof as aforesaid, shall not cure or waive any default or Event of Default, nor waive, modify or affect any notice of default hereunder, nor invalidate any act done pursuant to any such notice. The License shall not grant to Lender the right to possession, except as provided in this Security Deed.

ARTICLE IV. RIGHTS AND DUTIES OF THE PARTIES

4.1 Title. Grantor warrants that Grantor lawfully possesses and holds indefeasible fee simple title to the Subject Property without limitation on the right to encumber, as herein provided, and that this Security Deed is a valid security title to the Subject Property and all of Grantor's interest therein. Grantor warrants and covenants that Grantor is lawfully seized and possessed of the Subject Property as aforesaid, and that Grantor does warrant and shall forever defend the title thereto against the claims of all persons whomsoever, except as disclosed to Lender prior to the date hereof in a writing which refers to this warranty.

4.2 Taxes and Assessments. Subject to the right, if any, of Grantor to contest payment of the following pursuant to the Credit Agreement, Grantor shall pay prior to delinquency all taxes, assessments, levies and charges imposed: (a) by any public or quasi-public authority or utility company which are or which may become a lien upon or cause a loss in value of the Subject Property or any interest therein; or (b) by any public authority upon Lender by reason of its interest in any Secured Obligation or in the Subject Property, or by reason of any payment made to Lender pursuant to any Secured Obligation; provided however, that Grantor shall have no obligation to pay any income taxes of Lender. Promptly upon request by Lender, Grantor shall furnish to Lender satisfactory evidence of the payment of all of the foregoing. Lender is hereby authorized to request and receive from the responsible governmental and non-governmental personnel written statements with respect to the accrual and payment of any of the foregoing.

4.3 Performance of Secured Obligations. Grantor shall promptly pay and perform each Secured Obligation when due.

4.4 Liens, Encumbrances and Charges. Subject to the right, if any, of Grantor to contest any lien on the Subject Property pursuant to the Credit Agreement, Grantor shall immediately discharge any lien on the Subject Property not approved by Lender in writing. Except as otherwise provided in the Credit Agreement, Grantor shall pay when due all obligations secured by or reducible to liens and encumbrances which shall now or hereafter encumber the Subject Property, whether senior or subordinate hereto, including without limitation, any mechanics' liens.

4.5 Insurance. Grantor shall insure the Subject Property against loss or damage by fire and such other risks as Lender shall from time to time require. Grantor shall carry public liability insurance, flood insurance as required by applicable law and such other insurance as Lender may reasonably require, including without limitation, business interruption insurance or loss of rental value insurance. Grantor shall maintain all required insurance at Grantor's expense, under policies issued by companies and in form and substance satisfactory to Lender. Lender, by reason of accepting, rejecting, approving or obtaining insurance, shall not incur any liability for: (a) the existence, nonexistence, form or legal sufficiency thereof; (b) the solvency of any insurer; or (c) the payment of losses. All policies and certificates of insurance shall name Lender as loss payee and an additional insured (but without any liability for any premiums), and shall otherwise comply with the terms of the Credit Agreement. Immediately upon any request by Lender, Grantor shall deliver to Lender the original of all such policies or certificates, with receipts evidencing annual prepayment of the premiums.

4.6 Tax and Insurance Impounds. At Lender's option and upon its demand, Grantor shall, until all Secured Obligations have been paid in full, pay to Lender monthly, annually or as otherwise directed by Lender an amount estimated by Lender to be equal to: (a) all taxes, assessments, levies and charges imposed by any public or quasi-public authority or utility company which are or may become a lien upon the Subject Property and will become due for the tax year during which such payment is so directed; and (b) premiums for fire, other hazard and mortgage insurance next due. If Lender determines that amounts paid by Grantor are insufficient for the payment in full of such taxes, assessments, levies and/or insurance premiums, Lender shall notify Grantor of the increased amount required for the payment thereof when due, and Grantor shall pay to Lender such additional amount within thirty (30) days after notice from Lender. All amounts so paid shall not bear interest, except to the extent and in the amount required by law. So long as there is no Event of Default, Lender shall apply said amounts to the payment of, or at Lender's sole option release said funds to Grantor for application to and payment of, such taxes, assessments, levies, charges and insurance premiums. If an Event of Default exists, Lender at its sole option may apply all or any part of said amounts to any Secured Obligation and/or to cure such Event of Default, in which event Grantor shall be required to restore all amounts so applied, as well as to cure any Event of Default not cured by such application. Grantor hereby grants and transfers to Lender a security interest in all amounts so paid and held in Lender's possession, and all proceeds thereof, to secure the payment and performance of each Secured Obligation. Upon assignment of this Security Deed, Lender shall have the right to assign all amounts collected and in its possession to its assignee, whereupon Lender shall be released from all liability with respect thereto. The existence of said impounds shall not limit Lender's rights under any other provision of this Security Deed or any other agreement, statute or rule of law. Within ninety-five (95) days following full repayment of all Secured Obligations (other than as a consequence of a foreclosure or conveyance in lieu of foreclosure of the liens and security interests securing any Secured Obligation), or at such earlier time as Lender in its discretion may elect, the balance of all amounts collected and in Lender's possession shall be paid to Grantor, and no other party shall have any right of claim thereto.

4.7 Damages; Insurance and Condemnation Proceeds.

(a) (i) All awards of damages and all other compensation payable directly or indirectly by reason of a condemnation or proposed condemnation (or transfer in lieu thereof) for public or private use affecting the Subject Property; (ii) all other claims and awards for damages to or decrease in value of the Subject Property; (iii) all proceeds of any insurance policies payable by reason of loss sustained to the Subject Property; and (iv) all interest which may accrue on any of the foregoing, are all absolutely and irrevocably assigned to and shall be paid to Lender. At the absolute discretion of Lender, whether or not its security is or may be impaired, but subject to applicable law if any, and without regard to any requirement contained in any other Section hereof, Lender may apply all or any of the proceeds it receives to its expenses in settling, prosecuting or defending any such claim and apply the balance to the Secured Obligations in any order, and release all or any part of the proceeds to Grantor upon any conditions Lender may impose. Lender may commence, appear in, defend or prosecute any assigned claim or action, and may adjust, compromise, settle and collect all claims and awards assigned to Lender; provided however, that in no event shall Lender be responsible for any failure to collect any claim or award, regardless of the cause of the failure.

(b) At its sole option, Lender may permit insurance or condemnation proceeds held by Lender to be used for repair or restoration but may impose any conditions on such use as Lender deems necessary.

4.8 Maintenance and Preservation of Subject Property. Subject to the provisions of any Secured Obligation, Grantor covenants:

(a) to keep the Subject Property in good condition and repair;

(b) except with Lender's prior written consent, not to remove or demolish the Subject Property, nor alter, restore or add to the Subject Property, nor initiate or acquiesce in any change in any zoning or other land classification which affects the Subject Property;

(c) to restore promptly and in good workmanlike manner any portion of the Subject Property which may be damaged or destroyed, unless Lender requires that all of the insurance proceeds be used to reduce the Secured Obligations as provided in the Section hereof entitled Damages; Insurance and Condemnation Proceeds;

(d) to comply with and not to suffer violation of any or all of the following which govern acts or conditions on, or otherwise affect the Subject Property: (i) laws, ordinances, regulations, standards and judicial and administrative rules and orders; (ii) covenants, conditions, restrictions and equitable servitudes, whether public or private; and (iii) requirements of insurance companies and any bureau or agency which establishes standards of insurability;

(e) not to commit or permit waste of the Subject Property; and

(f) to do all other acts which from the character or use of the Subject Property may be reasonably necessary to maintain and preserve its value.

4.9 Hazardous Substances; Environmental Provisions. Grantor represents and warrants to Lender as follows:

(a) Except as disclosed to Lender in any Phase I Environmental Report delivered to Lender by Grantor prior to the date hereof, the Subject Property is not and has not been a site for the use, generation, manufacture, storage, treatment, disposal, release or threatened release, transportation or presence of any substances which are Hazardous Materials. As used herein "Hazardous Materials" shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (as defined in the Credit Agreement) (including any that are or become classified as hazardous or toxic under any Environmental Law).

(b) The Subject Property is in compliance with all Environmental Laws, including without limitation, the Clean Air Act, the Federal Water Pollution Control Act, the Federal Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Toxic Substances Control Act and the Occupational Safety and Health Act, as any of the same may be amended, modified or supplemented from time to time, and any other applicable federal, state or local environmental laws, and any rules or regulations adopted pursuant to any of the foregoing.

(c) There are no claims or actions pending or threatened against Grantor or the Subject Property by any governmental entity or agency, or any other person or entity, relating to any Hazardous Materials or pursuant to any Environmental Laws.

(d) The Subject Property is not listed on Georgia's hazardous site inventory.

(e) Grantor hereby agrees to defend, indemnify and hold harmless Lender, its directors, officers, employees, agents, successors and assigns, from and against any and all losses, damages, liabilities, claims, actions, judgments, court costs and legal or other expenses (including without limitation, attorneys' fees and expenses) which Lender may incur as a direct or indirect consequence of the use, generation, manufacture, storage, treatment, disposal, release or threatened release, transportation or presence of Hazardous Materials in, on, under or about the Subject Property. Grantor shall pay to Lender immediately upon demand any amounts owing under this indemnity, together with interest from the date of demand until paid in full at the highest rate of interest applicable to any Secured Obligation. GRANTOR'S DUTY AND OBLIGATION TO DEFEND, INDEMNIFY AND HOLD HARMLESS LENDER SHALL SURVIVE THE CANCELLATION OF THE SECURED OBLIGATIONS AND THE RELEASE OR PARTIAL RELEASE OF THIS SECURITY DEED.

(f) Grantor shall immediately advise Lender in writing upon Grantor's discovery of any occurrence or condition on the Subject Property, or on any real property adjoining or in the vicinity of the Subject Property, that does or could cause all or any part of the Subject Property to be contaminated with any Hazardous Materials or otherwise be in violation of any Environmental Law, or cause the Subject Property to be subject to any restrictions on the ownership, occupancy, transferability or use thereof under any Environmental Law.

4.10 Protection of Security. Grantor shall, at Grantor's sole expense: (a) protect, preserve and defend the Subject Property and Grantor's title and right to possession of the Subject Property against all adverse claims; (b) if Grantor's interest in the Subject Property is a leasehold interest or estate, pay and perform in a timely manner all obligations to be paid and/or performed by the lessee or tenant under the lease or other agreement creating such leasehold interest or estate; and (c) protect, preserve and defend the security of this Security Deed and the rights and powers of Lender under this Security Deed against all adverse claims. Grantor shall give Lender prompt notice in writing of the assertion of any claim, the filing of any action or proceeding, or the occurrence of any damage, condemnation offer or other action relating to or affecting the Subject Property and, if Grantor's interest in the Subject Property is a leasehold interest or estate, of any notice of default or demand for performance under the lease or other agreement pursuant to which such leasehold interest or estate was created or exists.

4.11 Powers and Duties of Lender. Lender may, upon written request, without obligation to do so or liability therefor and without notice: (a) release all or any part of the Subject Property from the security title of this Security Deed; (b) consent to the making of any map or plat of the Subject Property; and (c) join in any grant of easement or declaration of covenants and restrictions with respect to the Subject Property, or any extension agreement or any agreement subordinating the security title or charge of this Security Deed. Lender may from time to time apply to any court of competent jurisdiction for aid and direction in the exercise or enforcement of its rights and remedies available under this Security Deed, and may obtain orders or decrees directing, confirming or approving acts in the exercise or enforcement of said rights and remedies. Lender has no obligation to notify any party of any pending sale or any action or proceeding (including, but not limited to, actions in which Grantor or Lender shall be a party) unless held or commenced and maintained by Lender under this Security Deed.

4.12 Compensation; Exculpation; Indemnification.

(a) Grantor shall pay Lender reasonable compensation for services rendered concerning this Security Deed, including without limitation, the providing of any statement of amounts owing under any Secured Obligation. Lender shall not directly or indirectly be liable to Grantor or any other person as a consequence of: (i) the exercise of any rights, remedies or powers granted to Lender in this Security Deed; (ii) the failure or refusal of Lender to perform or discharge any obligation or liability of Grantor under this Security Deed or any Lease or other agreement related to the Subject Property; or (iii) any loss sustained by Grantor or any third party as a result of Lender's failure to lease the Subject Property after

any Event of Default or from any other act or omission of Lender in managing the Subject Property after any Event of Default unless such loss is caused by the willful misconduct or gross negligence of Lender; and no such liability shall be asserted or enforced against Lender, and all such liability is hereby expressly waived and released by Grantor.

(b) Grantor shall indemnify Lender against, and hold Lender harmless from, any and all losses, damages, liabilities, claims, causes of action, judgments, court costs, attorneys' fees and other legal expenses, costs of evidence of title, costs of evidence of value, and other expenses which Lender may suffer or incur: (i) by reason of this Security Deed; (ii) by reason of the performance of any act required or permitted hereunder or by law; (iii) as a result of any failure of Grantor to perform Grantor's obligations; or (iv) by reason of any alleged obligation or undertaking of Lender to perform or discharge any of the representations, warranties, conditions, covenants or other obligations contained in any other document related to the Subject Property, including without limitation, the payment of any taxes, assessments, rents or other lease obligations, liens, encumbrances or other obligations of Grantor under this Security Deed. Grantor's duty to indemnify Lender shall survive the payment, discharge or cancellation of the Secured Obligations and the release or satisfaction, in whole or in part, of this Security Deed.

(c) Grantor shall pay all indebtedness arising under this Section immediately upon demand by Lender, together with interest thereon from the date of demand until paid in full at the highest rate per annum payable under any Secured Obligation. Lender may, at its option, add any such indebtedness to any Secured Obligation.

4.13 Due on Sale or Encumbrance. Except as permitted by the provisions of the Credit Agreement or applicable law, if the Subject Property or any interest therein shall be sold, transferred (including without limitation, where applicable, through sale or transfer of a majority or controlling interest of the corporate stock, or any general partnership, limited liability company or other similar interests, of Grantor), mortgaged, assigned, encumbered or leased, whether voluntarily, involuntarily or by operation of law (each of which actions and events is called a "Transfer"), without Lender's prior written consent, THEN Lender may, at its sole option, declare all Secured Obligations immediately due and payable in full. Grantor shall notify Lender in writing of each Transfer within ten (10) business days of the date thereof.

4.14 Releases, Extensions, Modifications and Additional Security. Without notice to or the consent, approval or agreement of any persons or entities having any interest at any time in the Subject Property or in any manner obligated under any Secured Obligation (each, an "Interested Party"), Lender may, from time to time, release any Interested Party from liability for the payment of any Secured Obligation, take any action or make any agreement extending the maturity or otherwise altering the terms or increasing the amount of any Secured Obligation, accept additional security, and enforce, waive, subordinate or release all or a portion of the Subject Property or any other security for any Secured Obligation. None of the foregoing actions shall release or reduce the personal liability of any Interested Party, nor release or impair the priority of the security title of this Security Deed upon the Subject Property.

4.15 Release of Security Deed. Upon satisfaction in full of the Secured Obligations, Lender, without warranty, shall deliver for recording in the appropriate real property records a cancellation or release of Security Deed for the Subject Property, or that portion thereof then covered hereby, from the security title of this Security Deed.

4.16 Subrogation. Lender shall be subrogated to the lien of all encumbrances, whether or not released of record, paid in whole or in part by Lender pursuant to this Security Deed or by the proceeds of any Secured Obligation.

ARTICLE V. DEFAULT PROVISIONS

5.1 Default. The occurrence of any of the following shall constitute an "Event of Default" under this Security Deed: (a) Grantor shall fail to observe or perform any obligation or agreement contained herein; (b) any representation or warranty of Grantor herein shall prove to be incorrect, false or misleading in any material respect when made; or (c) any Event of Default occurs under the Credit Agreement.

5.2 Rights and Remedies. Upon the occurrence of any Event of Default, and at any time thereafter, Lender shall have all the following rights and remedies:

(a) With or without notice, to declare all Secured Obligations immediately due and payable in full.

(b) With or without notice, without releasing Grantor from any Secured Obligation and without becoming a mortgagee in possession, to cure any Event of Default of Grantor and, in connection therewith: (i) to enter upon the Subject Property and to do such acts and things as Lender deems necessary or desirable to protect the security of this Security Deed, including without limitation, to appear in and defend any action or proceeding purporting to affect the security of this Security Deed or the rights or powers of Lender hereunder; (ii) to pay, purchase, contest or compromise any encumbrance, charge, lien or claim of lien which, in the judgment of Lender, is senior in priority to this Security Deed, the judgment of Lender being conclusive as between the parties hereto; (iii) to obtain, and to pay any premiums or charges with respect to, any insurance required to be carried hereunder; and (iv) to employ counsel, accountants, contractors and other appropriate persons to assist Lender.

(c) To commence and maintain an action or actions in any court of competent jurisdiction to foreclose this Security Deed or to obtain specific enforcement of the covenants of Grantor under this Security Deed, and Grantor agrees that such covenants shall be specifically enforceable by injunction or any other appropriate equitable remedy. For the purposes of any suit brought under this subsection, Grantor waives the defenses of laches and any applicable statute of limitations.

(d) To apply to a court of competent jurisdiction for and obtain appointment of a receiver of the Subject Property as a matter of strict right and without regard to: (i) the adequacy of the security for the repayment of the Secured Obligations; (ii) the existence of a declaration that the Secured Obligations are immediately due and payable; or (iii) the filing of a notice of default; and Grantor consents to such appointment.

(e) To take and possess all documents, books, records, papers and accounts of Grantor or the then owner of the Subject Property; to make or modify Leases of, and other agreements with respect to, the Subject Property upon such terms and conditions as Lender deems proper; and to make repairs, alterations and improvements to the Subject Property deemed necessary, in Lender's judgment, to protect or enhance the security hereof.

(f) To resort to and realize upon the security hereunder and any other security now or later held by Lender concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non-judicial proceedings, or both, and to apply the proceeds received in accordance with the Section hereof entitled Application of Foreclosure Sale Proceeds, all in such order and manner as Lender shall determine in its sole discretion.

(g) Lender, at its option and subject to any mandatory requirements of applicable law, may sell the Subject Property or any part thereof at public sale or sales, as an entirety or in parcels, before the door of the courthouse of the county in which the Subject Property or any part thereof is situated, to the highest bidder for cash, in order to pay the Secured Obligations that are then due and payable and

insurance premiums, liens, assessments, taxes and charges, including utility charges, if any, with accrued interest thereon, and all expenses of the sale and of all proceedings in connection therewith, including reasonable attorneys' fees, actually incurred, after advertising the time, place and terms of sale once a week for four (4) weeks immediately preceding such sale (but without regard to the number of days) in a newspaper in which Sheriff's sales are advertised in said county. The foregoing notwithstanding, Lender may sell, or cause to be sold, any tangible or intangible Subject Property, or any part thereof, and that constitutes a part of the security hereunder, in the foregoing manner, or as may otherwise be provided herein or by law. At any such sale, Lender may execute and deliver to the purchaser a conveyance of the Subject Property or any part thereof in fee simple (without covenants and warranties, express or implied) and to this end, Grantor hereby constitutes and appoints Lender the agent and attorney-in-fact of Grantor to make such sale and conveyance, and thereby to divest Grantor of all right, title and equity that Grantor may have in and to the Subject Property and to vest the same in the purchaser or purchasers at such sale or sales, and all the acts and doings of said agent and attorney-in-fact are hereby ratified and confirmed by Grantor. The aforesaid power of sale and agency hereby granted are coupled with an interest and are irrevocable by death or otherwise, are granted as cumulative of the other remedies provided by law for collection of the Secured Obligations and shall not be exhausted by one exercise thereof but may be exercised until full payment of all Secured Obligations. Lender may bid at any such sale and if Lender is the successful bidder, Lender may credit all or part of the Secured Obligations in satisfaction of the amount of such bid.

(h) Upon sale of the Subject Property at any judicial or non-judicial foreclosure, Lender may credit bid (as determined by Lender in its sole discretion) all or any portion of the Secured Obligations. In determining such credit bid, Lender may, but is not obligated to, take into account all or any of the following: (i) appraisals of the Subject Property as such appraisals may be discounted or adjusted by Lender in its sole underwriting discretion; (ii) expenses and costs incurred by Lender with respect to the Subject Property prior to foreclosure; (iii) expenses and costs which Lender anticipates will be incurred with respect to the Subject Property after foreclosure, but prior to resale, including without limitation, costs of structural reports and other due diligence, costs to carry the Subject Property prior to resale, costs of resale (e.g., commissions, attorneys' fees, and taxes), Hazardous Materials clean-up and monitoring, deferred maintenance, repair, refurbishment and retrofit, and costs of defending or settling litigation affecting the Subject Property; (iv) declining trends in real property values generally and with respect to properties similar to the Subject Property; (v) anticipated discounts upon resale of the Subject Property as a distressed or foreclosed property; (vi) the existence of additional collateral, if any, for the Secured Obligations; and (vii) such other factors or matters that Lender deems appropriate. Grantor acknowledges and agrees that: (A) Lender is not required to use any or all of the foregoing factors to determine the amount of its credit bid; (B) this Section does not impose upon Lender any additional obligations that are not imposed by law at the time the credit bid is made; (C) the amount of Lender's credit bid need not have any relation to any loan-to-value ratios specified in any agreement between Grantor and Lender or previously discussed by Grantor and Lender; and (D) Lender's credit bid may be, at Lender's sole discretion, higher or lower than any appraised value of the Subject Property.

5.3 Application of Foreclosure Sale Proceeds. After deducting all costs, fees and expenses of sale, including costs of evidence of title and attorneys' fees in connection with a sale, all proceeds of any foreclosure sale shall be applied first, to payment of all Secured Obligations (including without limitation, all sums expended by Lender under the terms hereof and not then repaid, with accrued interest at the highest rate per annum payable under any Secured Obligation), in such order and amounts as Lender in its sole discretion shall determine; and the remainder, if any, to the person or persons legally entitled thereto.

5.4 Application of Other Sums. All Rents or other sums received by Lender or any agent or receiver hereunder, less all costs and expenses incurred by Lender or such agent or receiver, including reasonable attorneys' fees, shall be applied to payment of the Secured Obligations in such order as Lender shall determine in its sole discretion; provided however, that Lender shall have no liability for funds not actually received by Lender.

5.5 No Cure or Waiver. Neither Lender's or any receiver's entry upon and taking possession of the Subject Property, nor any collection of Rents, insurance proceeds, condemnation proceeds or damages, other security or proceeds of other security, or other sums, nor the application of any collected sum to any Secured Obligation, nor the exercise of any other right or remedy by Lender or any receiver shall impair the status of the security of this Security Deed, or cure or waive any breach, Event of Default or notice of default under this Security Deed, or nullify the effect of any notice of default or sale (unless all Secured Obligations and any other sums then due hereunder have been paid in full and Grantor has cured all other Events of Default), or prejudice Lender in the exercise of any right or remedy, or be construed as an affirmation by Lender of any tenancy, lease or option of the Subject Property or a subordination of the security title of this Security Deed.

5.6 Costs, Expenses and Attorneys' Fees. Grantor agrees to pay to Lender immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including court costs and reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Lender's in-house counsel), expended or incurred by Lender pursuant to this Article V, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Lender or any other person) relating to Grantor or in any way affecting any of the Subject Property or Lender's ability to exercise any of its rights or remedies with respect thereto. All of the foregoing shall be paid by Grantor with interest from the date of demand until paid in full at the highest rate per annum payable under any Secured Obligation. Whenever in this Security Deed Grantor is obligated to pay for the attorneys' fees of Lender, or the phrase "reasonable attorney's fees" or a similar phrase is used, it shall be Grantor's obligation to pay the attorneys' fees actually incurred or allocated, at standard hourly rates, without regard to statutory interpretation under Official Code of Georgia Annotated §13-1-11, which shall not apply, Grantor hereby waiving the application of said code section.

5.7 Power to File Notices and Cure Defaults. Grantor hereby irrevocably appoints Lender and its successors and assigns as Grantor's true attorney-in-fact to perform any of the following powers, which agency is coupled with an interest, and is irrevocable by death or otherwise: (a) to execute and/or record any notices of completion, cessation of labor, or any other notices that Lender deems appropriate to protect Lender's interest; and (b) upon the occurrence of any event, act or omission which with the giving of notice or the passage of time, or both, would constitute an Event of Default, to perform any obligation of Grantor hereunder; provided however, that Lender, as such attorney-in-fact, shall only be accountable for such funds as are actually received by Lender, and Lender shall not be liable to Grantor or any other person or entity for any failure to act under this Section.

5.8 Remedies Cumulative; No Waiver. All rights, powers and remedies of Lender hereunder are cumulative and are in addition to all rights, powers and remedies provided by law or in any other agreements between Grantor and Lender. No delay, failure or discontinuance of Lender in exercising any right, power or remedy hereunder shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy.

ARTICLE VI. MISCELLANEOUS PROVISIONS

6.1 No Merger. No merger shall occur as a result of Lender's acquiring any other estate in, or any other lien on, the Subject Property unless Lender specifically consents to a merger in writing.

6.2 Execution of Documents. Grantor agrees, upon demand by Lender, to execute any and all documents and instruments required to effectuate the provisions hereof.

6.3 Right of Inspection. Lender or its agents or employees may enter onto the Subject Property at any reasonable time for the purpose of inspecting the Subject Property and ascertaining Grantor's compliance with the terms hereof.

6.4 Notices. All notices, requests and demands which Grantor or Lender is required or may desire to give to the other party must be in writing, delivered in accordance with the terms of Section 12.3 of the Credit Agreement.

6.5 Successors; Assignment. This Security Deed shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto; provided however, that this Section does not waive the provisions of the Section hereof entitled Due on Sale or Encumbrance. Lender reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Lender's rights and benefits under this Security Deed in connection with any assignment, in whole or in part, of Lender's rights and benefits pursuant to the Credit Agreement in accordance with the terms and conditions set forth therein. In connection therewith, Lender may disclose all documents and information which Lender now has or hereafter acquires relating to the Subject Property, all or any of the Secured Obligations and/or Grantor and, as applicable, any partners, joint venturers or members of Grantor, whether furnished by any Grantor or otherwise.

6.6 Rules of Construction; Time of Essence. (a) When appropriate based on the identity of the parties or other circumstances, the masculine gender includes the feminine or neuter or both, and the singular number includes the plural; (b) the term "Subject Property" means all and any part of or interest in the Subject Property; (c) all Section headings herein are for convenience of reference only, are not a part of this Security Deed, and shall be disregarded in the interpretation of any portion of this Security Deed; (d) if more than one person or entity has executed this Security Deed as "Grantor," the obligations of all such Grantors hereunder shall be joint and several; (e) all terms of Exhibit A, and each other exhibit and/or rider attached hereto and recorded herewith, are hereby incorporated into this Security Deed by this reference; and (f) time is of the essence with respect to performance of each and every provision of this Security Deed.

6.7 Severability of Provisions. If any provision of this Security Deed shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Security Deed.

6.8 Governing Law. This Security Deed shall be governed by and construed in accordance with the laws of the State of Georgia.

GRANTOR HEREBY WAIVES ANY RIGHT GRANTOR MAY HAVE UNDER THE CONSTITUTION OR THE LAWS OF THE STATE OF GEORGIA OR THE CONSTITUTION OR THE LAWS OF THE UNITED STATES OF AMERICA TO NOTICE (OTHER THAN EXPRESSLY PROVIDED FOR IN THIS INSTRUMENT), OR TO A JUDICIAL HEARING PRIOR TO THE EXERCISE OF ANY RIGHT OR REMEDY PROVIDED BY THIS INSTRUMENT TO LENDER, AND GRANTOR WAIVES GRANTOR'S RIGHTS, IF ANY, TO SET ASIDE OR INVALIDATE ANY SALE DULY CONSUMMATED IN ACCORDANCE WITH THE PROVISIONS OF THIS INSTRUMENT ON THE GROUND (IF SUCH BE THE CASE) THAT THE SALE WAS CONSUMMATED WITHOUT A PRIOR JUDICIAL HEARING. ALL WAIVERS BY GRANTOR IN THIS PARAGRAPH HAVE BEEN MADE VOLUNTARILY, INTELLIGENTLY AND KNOWINGLY, AFTER GRANTOR HAS BY GRANTOR'S ATTORNEY BEEN FIRST APPRISED OF AND COUNSELED WITH RESPECT TO GRANTOR'S POSSIBLE ALTERNATIVE RIGHTS.

IN WITNESS WHEREOF, Grantor has executed this Security Deed under seal as of the date first set forth above.

GRANTOR:

Signed, sealed and delivered in the presence of the following witnesses:

BARRETT CARPET MILLS INC.

Susan Renee White
Unofficial Witness

By: Kevin Black
Name: Kevin Black
Title: Authorized Signing Officer

Lisa A. Magness
Notary Public

(NOTARY SEAL)

My Commission Expires:

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Lisa A. Magness, Notary Public
Paint Twp., Clarion County
My Commission Expires May 13, 2014
Member, Pennsylvania Association of Notaries

EXHIBIT A
(Description of Property)

Exhibit A to Deed to Secure Debt and Assignment of Rents and Leases executed by BARRETT CARPET MILLS INC., as Grantor, to WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as grantee, dated as of August 6, 2013.

Legal Description of Property – See Attached

EXHIBIT "A"

LEGAL DESCRIPTIONTract I

TRACT I: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lots 9 and 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, and being that identical tract shown as containing 1.330 acres on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096 for Roy Barrett, dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia, being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed, begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road as measured along the west side of said Abutment Road, thence south 88 degrees 35 minutes west 526.72 feet; thence proceed north 01 degree 35 minutes 30 seconds west 211.53 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 24 minutes 30 seconds west 352.35 feet; thence north 01 degree 35 minutes 30 seconds west 54.55 feet; thence south 88 degrees 29 minutes west 2.47 feet to an iron pin; thence north 01 degree 31 minutes west 110.46 feet; thence north 88 degrees 51 minutes east 354.68 feet to the west right-of-way of a 24 feet in width road easement; thence south 01 degree 35 minutes 30 seconds east along said road easement 162.28 feet to the true point of beginning of the tract herein conveyed.

Tract II

TRACT II: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lot 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, being that 0.733 acre tract shown on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096, for Roy Barrett dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia and being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road, as measured along the west side of said Abutment Road and proceed south 88 degrees 35 minutes west a distance of 526.72 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 35 minutes west 352.35 feet;

EXHIBIT "A"

LEGAL DESCRIPTION

thence north 01 degree 35 minutes 30 seconds west 90.10 feet;
thence south 88 degrees 24 minutes 30 seconds west 352.35 feet to
the west right-of-way of a 24 feet in width road easement; thence
south 01 degree 35 minutes 30 seconds east a distance of 91.18 feet
to the TRUE POINT OF BEGINNING of the tract herein conveyed.

ALSO CONVEYED HEREIN, is a perpetual easement for the purpose of
ingress and egress over, through and across the following lands,
to-wit: A certain tract or parcel of land lying and being in
Land Lot 333 of the 12th District and 3rd Section of Whitfield
County, Georgia, being part of Lots 9 and 10 of J. A. McFarland
Farm Subdivision, as per plat of same recorded in Plat Book 1,
Page 86 - 87, Clerk's Office, Whitfield County, Georgia and being
that "24 feet road easement" shown on a plat of survey prepared
by Peter L. Bakum, Registered Land Surveyor No. 1096 for Roy
Barrett, dated January 14, 1981, said easement area being more
particularly described as follows:

BEGINNING at a point on the west side of the right-of-way of Abutment
Road, said point being located 374.86 feet north of the northwest
corner of the intersection of said Abutment Road with Brickyard
Road, as measured along the west side of said Abutment Road; thence
south 88 degrees 24 minutes 30 seconds west 526.74 feet; thence
north 01 degree 35 minutes 30 seconds west 350.56 feet; thence
north 88 degrees 51 minutes east 24 feet; thence south 01 degree
35 minutes 30 seconds east 326.37 feet; thence north 88 degrees
24 minutes 30 seconds east 502.78 feet to the west right-of-way
of Abutment Road; thence south 01 degree 31 minutes east along
the west right-of-way of Abutment Road 24 feet to the point of
beginning.

Said property over which this perpetual easement is granted is
adjacent to the eastside of Tract I hereinabove described and
adjacent to a portion of the east line of Tract II hereinabove
described, and this easement is granted as appurtenant to Tract I
and Tract II, hereinabove described, for the purpose of ingress
from Abutment Road to said Tracts and for egress from said tracts
to Abutment Road. The easement herein granted shall bind the heirs,
successors and assigns of the grantor herein and shall inure to the
benefit of the successors in title of the grantee herein.

EXHIBIT "A"

LEGAL DESCRIPTIONTract III

ALL THAT TRACT OR PARCEL OF LAND lying, situated and being in Land Lot 333, 12th District, 3rd Section, Whitfield County, Georgia, and being known and described as parts of Lots 9, 10 and 13 of the J. A. MacFarland Farm Subdivision, as per plat of said subdivision recorded in Plat Book 1, Page 86 (Plat Cabinet A, Slide 21), Whitfield County Land Records, and being more particularly described as follows:

COMMENCE at the northwest corner of the intersection of Brickyard Road with Abutment Road, run thence North along the west side of said Abutment Road 350 feet to **THE TRUE POINT OF BEGINNING**. **FROM THE TRUE POINT OF BEGINNING AS THUS ESTABLISHED**, run South 88 degrees 35 minutes West 881.88 feet to an iron pin; thence continue South 88 degrees 29 minutes West 200 feet to an iron pin; thence North 01 degree 31 minutes West 265 feet to an iron pin; thence North 88 degrees 29 minutes East 197.53 feet to a point; thence North 01 degree 31 minutes West 110.46 feet to a point; thence North 88 degrees 51 minutes East 681.66 feet to a point; thence South 01 degree 31 minutes East 180 feet to a point; thence North 88 degrees 51 minutes East 200 feet to a point; thence South 01 degree 31 minutes East 191.40 feet to the **TRUE POINT OF BEGINNING**.

LESS AND EXCEPT the lands previously conveyed to Barrett Carpet Mills, Inc. by virtue of a General Warranty Deed from Roy Barrett dated June 19, 1981, recorded at Deed Book 663, Page 240, in the Office of the Clerk of the Superior Court of Whitfield County, Georgia.

FURTHER LESS AND EXCEPT THE FOLLOWING RIGHTS-OF-WAY:

RIGHT-OF-WAY I: BEING that portion of the lands described above encompassed by a Public Road running in a northerly direction from the Brickyard Road traversing the westernmost portion of Parcel II and shown on the Plat prepared by Peter L. Bakkum, dated September 3, 1974.

RIGHT-OF-WAY II: BEING that portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on January 22, 1990 in Deed Book 2110, Page 337, Superior Court Clerk's Office, Whitfield County, Georgia.

RIGHT-OF-WAY III: BEING any portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on August 1, 1989 in Deed Book 2078, Page 157, Superior Court Clerk's Office, Whitfield County, Georgia.

EXHIBIT "A"

LEGAL DESCRIPTION

Tract IV

All that tract and parcel and land and being part of land lot number 333 of the 12th District and 3rd Section of Whitfield County Georgia and being .50 acres more or less as per a survey of said property recorded in Plat book D page 154 in records of the Clerk of Court of Superior Court of Whitfield County Georgia. Said Plat is hereby incorporated for a full and complete description of the property. This property is the same property conveyed to the grantors by a Warranty Deed recorded at Deed Book 2254 paid 332 and 333 of Deed Record of Clerk of the Superior Court of Whitfield County Georgia of November 18, 1991.

**HAZARDOUS MATERIALS INDEMNITY AGREEMENT
(Unsecured)**

THIS HAZARDOUS MATERIALS INDEMNITY AGREEMENT (Unsecured) ("**Indemnity**") is given July ____, 2013 by Barrett Carpet Mills, Inc., a corporation organized under the laws of the State of Georgia ("**Indemnitor**") to Wells Fargo Capital Finance Corporation Canada, an Ontario corporation ("**Lender**"), on the basis of the following facts and understandings:

- A. Pursuant to the terms of that certain Credit Agreement dated July ____, 2013 (the "**Credit Agreement**"), by and among Kraus Canada LP, an Ontario limited partnership, Strudex LP, an Ontario limited partnership, Kraus Carpet LP, an Ontario limited partnership, Kraus USA, Inc., a Delaware corporation, Indemnitor (all of the foregoing individually and collectively referred to herein as "**Borrower**"), the other persons designed therein as Credit Parties, and Lender in its capacity as lender and agent for its Affiliates (as defined therein) and assigns, evidencing a loan in the maximum principal amount of Fifty Million Canadian Dollars (\$50,000,000.00) (the "**Loan**") for the purposes specified in the Credit Agreement.
- B. The Credit Agreement is secured by, among other things, a Deed to Secure Debt and Assignment of Rents and Leases dated July ____, 2013, executed by Indemnitor, as Grantor, for the benefit of Lender, as Grantee, and recorded or to be recorded in the Whitfield County, Georgia Records (hereinafter referred to as "**Security Instrument**"). The Security Instrument encumbers the real property and any and all improvements thereon described on Exhibit A attached hereto and incorporated herein by this reference ("**Property**").
- C. The Loan is further evidenced and secured by certain other the documents described in the Loan Agreement as Loan Documents.
- D. The Loan Agreement, the Security Instrument, and those other documents described in the Loan Agreement as Loan Documents, together with all modifications, extensions, renewals and amendments thereto, are collectively referred to hereinafter as the "Loan Documents". This Indemnity is not one of the Loan Documents.
- E. Lender is willing to make the Loan only on the condition, among others, that Indemnitor defend, indemnify and hold harmless Lender for, from and against any and all claims, loss, damage, cost, expense or liability arising out of the presence of Hazardous Materials (as defined below) on the Property.
- F. Since the presence of Hazardous Materials on the Property may reduce the value of the Property to an extent that is unforeseeable and indeterminable and may, in fact, cause the value of the Property to be substantially less than the claims against Lender or the liabilities associated with ownership of such Property, Lender also is willing to make the Loan only on the condition that this Indemnity be and remain an unsecured personal obligation of Indemnitor.

NOW, THEREFORE, in consideration of Lender contemporaneously herewith making the Loan as requested by Borrower, and for other good, valuable and adequate consideration, receipt of which is hereby acknowledged, Indemnitor agrees, to the extent permitted by law, as follows:

1. HAZARDOUS MATERIALS.

- 1.1 **Representations And Warranties.** After reasonable investigation and inquiry, Indemnitor hereby represents and warrants to the best of Indemnitor's knowledge as of the date of hereof as follows:
 - (a) **Hazardous Materials.** Except as previously disclosed to Lender in any Phase I Environmental Report delivered to Lender by Indemnitor prior to the date hereof, the Property is not and has not been a site for the use, generation, manufacture, storage, treatment, release, threatened release, discharge, disposal, transportation or presence of any substances which are Hazardous Materials. As used herein "**Hazardous Materials**" shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-

made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (as defined in the Credit Agreement) (including any that are or become classified as hazardous or toxic under any Environmental Law). "Hazardous Materials" shall not include commercially reasonable amounts of such materials used in the ordinary course of operation of the Property which are used and stored in accordance with all applicable Environmental Laws.

- (b) Environmental Laws. The Property is in compliance with all Environmental Laws (as defined in the Credit Agreement), including, without limitation: the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of 1980, as amended (including the Superfund Amendments and Reauthorization Act of 1986, "CERCLA"), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Hazardous Materials Transportation Act, as amended 49 U.S.C. Section 1801 et seq.; the Atomic Energy Act, as amended, 42 U.S.C. Section 2011 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, as amended, 7 U.S.C. Section 136 et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; each as now and hereafter amended, and the regulations thereunder, and any other applicable local, state and/or federal laws or regulations that govern (i) the existence, cleanup and/or remedy of contamination on the Property; (ii) the protection of the environment from released, spilled, deposited or otherwise emplaced contamination; (iii) the control of hazardous wastes; or (iv) the use, generation, transport, treatment, removal or recovery of Hazardous Materials, including any and all building materials.
- (c) Hazardous Materials Claims. There are no claims, actions, proceedings or investigations ("Hazardous Materials Claims") pending or threatened against Indemnitor or the Property by any governmental entity or agency or by any other person or entity relating to Hazardous Materials or pursuant to the Environmental Laws.
- (d) Hazardous Site List. The Property is not listed on Georgia's hazardous site inventory.

1.2 Hazardous Materials Covenants. Indemnitor agrees as follows:

- (a) No Hazardous Activities. Indemnitor shall not cause or permit the Property to be used as a site for the use, generation, manufacture, storage, treatment, release, discharge, disposal, transportation or presence of any Hazardous Materials.
- (b) Compliance. Indemnitor shall comply, and cause the Property to comply, with all Environmental Laws.
- (c) Notices. Indemnitor shall immediately notify Lender in writing of: (1) the discovery of any Hazardous Materials on, under or about the Property; (2) any knowledge by Indemnitor that the Property does not comply with any Environmental Laws; (3) any Hazardous Materials Claims; and (4) the discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that could cause the Property or any part thereof to become contaminated with Hazardous Materials.

- (d) Remedial Action. In response to the presence of any Hazardous Materials on, under or about the Property, Indemnitor shall immediately take, at Indemnitor's sole expense, all remedial action required by any Environmental Laws, regulatory agency, governing body or any judgment, consent decree, settlement or compromise in respect to any Hazardous Materials Claims.

1.3 Hazardous Materials Indemnity. INDEMNITOR HEREBY AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS INDEMNITEES FOR, FROM AND AGAINST ANY AND ALL LOSSES, DAMAGES, LIABILITIES, CLAIMS, ACTIONS, JUDGMENTS, COURT COSTS AND LEGAL OR OTHER EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES AND EXPENSES) WHICH INDEMNITEES MAY INCUR AS A DIRECT OR INDIRECT CONSEQUENCE OF (A) THE USE, GENERATION, MANUFACTURE, STORAGE, TREATMENT, RELEASE, THREATENED RELEASE, DISCHARGE, DISPOSAL, TRANSPORTATION OR PRESENCE OF ANY HAZARDOUS MATERIALS WHICH ARE FOUND IN, ON, UNDER, ABOUT OR MIGRATING FROM THE PROPERTY; (B) ANY VIOLATION OR CLAIM OF VIOLATION OF ANY ENVIRONMENTAL LAWS WITH RESPECT TO THE PROPERTY; (C) ANY INDEMNITY CLAIM BY A THIRD PARTY AGAINST ONE OR MORE INDEMNITEES IN CONNECTION WITH ANY OF THE FOREGOING; OR (D) THE BREACH OF ANY COVENANTS (OR REPRESENTATIONS AND WARRANTIES) OF INDEMNITOR UNDER THIS INDEMNITY. SUCH INDEMNITY SHALL INCLUDE, WITHOUT LIMITATION: (I) THE COSTS, WHETHER FORESEEABLE OR UNFORESEEABLE, OF ANY REPAIR, CLEANUP OR DETOXIFICATION OF THE PROPERTY, OR THE REMOVAL OR REMEDIATION OF ANY HAZARDOUS MATERIALS (REGARDLESS OF THE MEDIUM) FROM THE PROPERTY, OR THE TAKING OF ANY EMERGENCY ACTION, WHICH IS REQUIRED BY ANY GOVERNMENTAL ENTITY OR IS OTHERWISE NECESSARY TO RENDER THE PROPERTY IN COMPLIANCE WITH ALL ENVIRONMENTAL LAWS AND REGULATIONS; (II) ALL OTHER DIRECT OR INDIRECT CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, ANY THIRD PARTY TORT CLAIMS OR GOVERNMENTAL CLAIMS, FINES OR PENALTIES AGAINST ANY AND ALL INDEMNITEES); AND (III) ALL COURT COSTS AND ATTORNEYS' FEES AND EXPENSES PAID OR INCURRED BY ANY AND ALL INDEMNITEES. EACH INDEMNITEE SHALL HAVE THE RIGHT AT ANY TIME TO APPEAR IN, AND TO PARTICIPATE IN AS A PARTY IF IT SO ELECTS, AND BE REPRESENTED BY COUNSEL OF ITS OWN CHOICE IN, ANY ACTION OR PROCEEDING INITIATED IN CONNECTION WITH ANY ENVIRONMENTAL LAWS THAT AFFECT THE PROPERTY. INDEMNITOR SHALL IMMEDIATELY PAY TO THE APPLICABLE INDEMNITEES UPON DEMAND ANY AMOUNTS OWING UNDER THIS INDEMNITY, TOGETHER WITH INTEREST FROM THE DATE THE INDEBTEDNESS ARISES UNTIL PAID AT THE RATE OF INTEREST APPLICABLE TO THE PRINCIPAL BALANCE OF THE CREDIT AGREEMENT. FOR THE PURPOSES HEREOF, "INDEMNITEES" SHALL MEAN LENDER, LENDER'S PARENTS, SUBSIDIARIES AND AFFILIATES, ANY HOLDER OF OR PARTICIPANT IN THE LOAN, AND EACH OF THEIR RESPECTIVE DIRECTORS OFFICERS, EMPLOYEES, AGENTS, SUCCESSORS AND ASSIGNS OF ANY OF THE FOREGOING.

1.4 Legal Effect. The term of the indemnity provided for herein will commence on the date hereof. Without in any way limiting the above, it is expressly understood that Indemnitor's duty to defend and indemnify the Indemnitees hereunder shall survive: (1) any judicial or non-judicial foreclosure under the Security Instrument, or transfer of the Property in lieu thereof; (2) the cancellation of the Credit Agreement and the release, satisfaction or reconveyance or partial release, satisfaction or reconveyance of the Security Instrument; and (3) the satisfaction of all of Borrower's and the other Credit Parties' obligations under the Loan Documents.

2. SETTLEMENTS; CLAIMS; JUDGMENTS. Without the prior written consent of Indemnitor, Lender may settle or compromise any claim with respect to Hazardous Materials made against any Indemnitee and Lender may employ an attorney of Lender's own selection to defend such Indemnitee. Indemnitor shall pay upon demand all of the costs and expenses of such defense. In addition, and notwithstanding any other provision of this Indemnity, Indemnitor shall not, without the prior written consent of Lender: (a) settle or compromise any action, suit, proceeding, or claim in which any Indemnitee is named as a party or consent to the entry of any judgment in such a matter that does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the

Indemnitee of a written release of the Indemnitee (in form, scope and substance satisfactory to Lender and the Indemnitee in its sole discretion) from all liability in respect of such action, suit, or proceeding; or (b) settle or compromise any action, suit, proceeding, or claim in which an Indemnitee is named as a party in any manner that may materially and adversely affect Lender as determined by Lender in its sole discretion.

3. **INTEREST.** Indemnitor shall pay Lender, on demand, interest, at the rate applicable to the principal balance of the Loan as specified in the Credit Agreement, on any costs or expenses incurred by Lender in the enforcement of this Indemnity or on any sums Lender is obligated to pay in respect to the matters with respect to which this Indemnity is given, from the date of Lender's demand.
4. **RIGHTS NOT EXCLUSIVE.** The rights of Indemnitees under this Indemnity shall be in addition to any other rights and remedies of Lender against Indemnitor under any other document or instrument now or hereafter executed by Indemnitor, or at law or in equity (including, without limitation, any right of reimbursement or contribution pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. Section 9601 et seq., as heretofore or hereafter amended from time to time).
5. **INDEMNITOR'S CONSENT.** Indemnitor authorizes Lender, without giving notice to Indemnitor or obtaining Indemnitor's consent and without affecting the liability of Indemnitor, from time to time to: (a) renew, modify or extend all or any portion of Borrower's or any other Credit Party's obligations under the Credit Agreement or any of the other Loan Documents and any obligations under or in connection with any Swap Agreement (as defined in the Credit Agreement) between Borrower or any other Credit Party and Lender; (b) declare all sums owing to Lender under the Credit Agreement or any of the other Loan Documents and any obligations under or in connection with any Swap Agreement between Borrower or any other Credit Party and Lender, due and payable upon the occurrence of an Event of Default under the Loan Documents or an Event of Default as defined in any Swap Agreement between Borrower or any other Credit Party and Lender; (c) make non-material changes in the dates specified for payments of any sums payable in periodic installments under the Credit Agreement or any of the other Loan Documents; (d) otherwise modify the terms of any of the Loan Documents or any Swap Agreement between Borrower or any other Credit Party and Lender, except for: (i) increases in the principal amount of the Loan for or changes in the manner by which interest rates, fees or charges are calculated under the Credit Agreement and the other Loan Documents (Indemnitor acknowledges that if the Credit Agreement or the other Loan Documents so provide, said interest rates, fees and charges may vary from time to time) or (ii) advancement of the Maturity Date (as defined in the Credit Agreement) of the Credit Agreement where no Event of Default has occurred under the Loan Documents; (e) take and hold security for the performance of Borrower's or any other Credit Party's obligations under Credit Agreement or the other Loan Documents and any obligations under or in connection with any Swap Agreement between Borrower or any other Credit Party and Lender, and exchange, enforce, waive, subordinate and release any such security in whole or part; (f) apply such security and direct the order or manner of sale thereof as Lender in its discretion may determine; (g) release, substitute or add any one or more endorsers of the Credit Agreement or guarantors of Borrower's obligations under the Credit Agreement or the other Loan Documents or any obligations under or in connection with any Swap Agreement between Borrower or any other Credit Party and Lender; (h) apply payments received by Lender from Borrower, any Credit Party or any guarantor of the Loan to any obligations of Borrower, such Credit Party or such guarantor to Lender, in such order as Lender shall determine in its sole discretion, whether or not any such obligations are covered by this Indemnity; and (i) assign this Indemnity in whole or in part.
6. **INDEMNITOR'S WAIVERS.** Indemnitor waives: (a) any defense based upon any legal disability or other defense of any Borrower, any Credit Party, any guarantor or other person, or by reason of the cessation or limitation of the liability of any Borrower or any other Credit Party from any cause other than full payment of all sums payable under the Loan Documents and satisfaction of any obligations under or in connection with any Swap Agreement between such Borrower or any other Credit Party and Lender; (b) any defense based upon any lack of authority of the officers, directors, partners, managers, members or agents acting or purporting to act on behalf of any Borrower, any Credit Party, Indemnitor or any principal of any Borrower, Credit Party or Indemnitor or any defect in the formation of any Borrower, Credit Party, Indemnitor or any principal of any Borrower, Credit Party or Indemnitor; (c) any defense based upon the application by any Borrower or any other Credit Party of the proceeds of the Loan for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Indemnitor; (d) any and all rights and defenses arising out of an election of remedies by Lender or

any other indemnified party, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation and a failure to obtain a judicial confirmation of such sale, has destroyed Indemnitor's rights of subrogation and reimbursement against any other Borrower or any other Credit Party by the operation of Section 44-14-161 of the Official Code of Georgia Annotated or otherwise; (e) any defense based upon Lender's failure to disclose to Indemnitor any information concerning any Borrower's or Credit Party's financial condition or any other circumstances bearing on any Borrower's or any Credit Party's ability to pay and perform its obligations under the Credit Agreement or any of the other Loan Documents and any obligations under or in connection with any Swap Agreement between such Borrower or any other Credit Party and Lender, or upon the failure of any other principals of any Borrower or any other Credit Party to guaranty the Loan or any obligations under or in connection with any Swap Agreement between Borrower or any other Credit Party and Lender; (f) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal; (g) any defense based upon Lender's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or any successor statute; (h) any defense based upon any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code; (i) any right of subrogation, any right to enforce any remedy which Lender may have against any Borrower or any other Credit Party and any right to participate in, or benefit from, any security for the Credit Agreement or the other Loan Documents or any obligations under or in connection with any Swap Agreement between any Borrower or any other Credit Party and Lender now or hereafter held by Lender; (j) presentment, demand, protest and notice of any kind; (k) the benefit of any statute of limitations affecting the liability of Indemnitor hereunder or the enforcement hereof; and (l) any rights Indemnitor may have pursuant to the terms of Section 10-7-24 of the Official Code of Georgia Annotated. Indemnitor further waives any and all rights and defenses that Indemnitor may have because Borrower's debt is secured by real property; this means, among other things, that: (1) Lender may collect from Indemnitor without first foreclosing on any real or personal property collateral pledged by any Borrower or any other Credit Party; (2) if Lender forecloses on any real property collateral pledged by a Borrower or any other Credit Party, then (A) the amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and (B) Lender may collect from Indemnitor even if Lender, by foreclosing on the real property collateral, has destroyed any right Indemnitor may have to collect from any other Borrower or any other Credit Party. The foregoing sentence is an unconditional and irrevocable waiver of any rights and defenses Indemnitor may have because Borrower's debt is secured by real property. These rights and defenses being waived by Indemnitor include, but are not limited to, any rights or defenses based upon deficiency limitation or anti-deficiency, redemption or other similar rights. Without limiting the generality of the foregoing or any other provision hereof, Indemnitor further expressly waives, to the extent permitted by law, any and all rights and defenses, including without limitation any rights of subrogation, reimbursement, indemnification and contribution, which might otherwise be available to Indemnitor under applicable law. Finally, Indemnitor agrees that the payment or performance of any act which tolls any statute of limitations applicable to the Credit Agreement or any of the other Loan Documents shall similarly operate to toll the statute of limitations applicable to Indemnitor's liability hereunder. In addition, Indemnitor understands that Indemnitor's duties, obligations and liabilities under this Indemnity are not limited in any way by any information (whether obtained from any Borrower, any Credit Party, from Indemnitor, or from Lender's own investigations) which Lender may have concerning the Property and the presence of any Hazardous Materials on the Property.

7. **ENFORCEABILITY.** Indemnitor hereby acknowledges that: (a) the obligations undertaken by Indemnitor in this Indemnity are complex in nature, and (b) numerous possible defenses to the enforceability of these obligations may presently exist and/or may arise hereafter, and (c) as part of Lender's consideration for entering into this transaction and any Swap Agreement between Borrower or any other Credit Party and Lender, Lender has specifically bargained for the waiver and relinquishment by Indemnitor of all such defenses, and (d) Indemnitor has had the opportunity to seek and receive legal advice from skilled legal counsel in the area of financial transactions of the type contemplated herein. Given all of the above, Indemnitor does hereby represent and confirm to Lender that Indemnitor is fully informed regarding, and that Indemnitor does thoroughly understand: (i) the nature of all such possible defenses, and (ii) the circumstances under which such defenses may arise, and (iii) the benefits which such defenses might confer upon Indemnitor, and (iv) the legal consequences to Indemnitor of waiving such defenses. Indemnitor acknowledges that Indemnitor makes this Indemnity with the intent that this Indemnity and all of the informed waivers herein shall each and all be fully enforceable by Lender, and that Lender is induced to enter into this transaction in material reliance upon the presumed full enforceability thereof.

8. MISCELLANEOUS.

- 8.1 **Notices.** All notices, demands, or other communications under this Indemnity shall be in writing and shall be delivered to the appropriate party in accordance with the terms of Section 12.3 of the Credit Agreement.
- 8.2 **Attorneys' Fees And Expenses; Enforcement.** If any attorney is engaged by Lender, or one or more other Indemnitees, to enforce or defend any provision of this Indemnity or as a consequence of any default under this Indemnity, with or without the filing of any legal action or proceeding, and including, without limitation, any fees and expenses incurred in any bankruptcy proceeding or in connection with any appeal of a lower court decision, then Indemnitor shall immediately pay to Lender, upon demand, the amount of all attorneys' fees actually incurred and expenses and all costs incurred in connection therewith, including all trial and appellate proceedings in any legal action, suit, bankruptcy or other proceeding, together with interest thereon from the date of such demand until paid at the rate of interest applicable to the principal balance of the Loan as specified in the Credit Agreement. In the event of any legal proceedings, court costs and attorneys' fees shall be set by the court and not by jury and shall be included in any judgment obtained by Lender.
- 8.3 **Loan Sales And Participation; Disclosure Of Information.** Indemnitor agrees that Lender may elect, at any time, to sell, assign or grant participation in all or any portion of Lender's rights and obligations under the Loan Documents and this Indemnity in accordance with the terms and conditions of the Credit Agreement. Indemnitor further agrees that Lender may disseminate to any actual or potential purchaser(s), assignee(s) or participant(s) all documents and information (including, without limitation, all financial information) which has been or is hereafter provided to or known to Lender with respect to: (a) the Property and its operation; (b) any party connected with the Loan (including, without limitation, the Borrower, any partner, shareholder, joint venturer, manager or member of Borrower, any constituent partner, shareholder, joint venturer, manager or member of Borrower, any Credit Party, any Guarantor, any Indemnitor, and any other guarantor); and/or (c) any lending relationship other than the Loan which Lender may have with any party connected with the Loan. In the event of any such sale, assignment or participation, Lender and the parties to such transaction shall share in the rights and obligations of Lender as set forth in the Loan Documents only as and to the extent they agree among themselves. In connection with any such sale, assignment or participation, Indemnitor further agrees that this Indemnity shall be sufficient evidence of the obligations of Indemnitor to each purchaser, assignee, or participant, and upon written request by Lender, Indemnitor shall consent to such amendments or modifications to the Loan Documents as may be reasonably required in order to evidence any such sale, assignment or participation.

Anything in this Indemnity to the contrary notwithstanding, and without the need to comply with any of the formal or procedural requirements of this Indemnity, including this Section, any lender may at any time and from time to time pledge and assign all or any portion of its rights under all or any of the Loan Documents to a Federal Reserve Bank; provided that no such pledge or assignment shall release such lender from its obligations thereunder.

- 8.4 **Waiver of Right to Trial By Jury.** TO THE EXTENT PERMITTED BY APPLICABLE STATE LAW, EACH PARTY TO THIS INDEMNITY HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING UNDER THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THE LOAN DOCUMENTS (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY

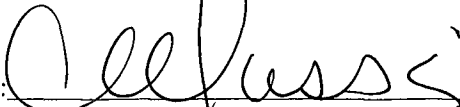
AGREES AND CONSENTS THAT ANY PARTY TO THIS INDEMNITY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF ANY RIGHT THEY MIGHT OTHERWISE HAVE TO TRIAL BY JURY.

- 8.5 **Severability.** If any provision or obligation under this Indemnity shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that provision shall be deemed severed from Indemnity and the validity, legality and enforceability of the remaining provisions or obligations shall remain in full force as though the invalid, illegal, or unenforceable provision had never been a part of this Indemnity.
- 8.6 **Heirs, Successors and Assigns.** Except as otherwise expressly provided under the terms and conditions herein, the terms of this Indemnity shall bind and inure to the benefit of the heirs, executors, administrators, nominees, successors and assigns of the parties hereto.
- 8.7 **Time.** Time is of the essence of each and every term herein.
- 8.8 **Governing Law and Consent to Jurisdiction.** This Indemnity and any claim, controversy or dispute arising under or related to this Indemnity, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties will be governed by, and construed and enforced in accordance with, the laws of the State of Georgia without regard to any conflicts of law principles, except to the extent preempted by federal laws. Indemnitor and all persons and entities in any manner obligated to Lender under the Loan Documents consent to the jurisdiction of any federal or state court within the State of Georgia having proper venue and also consent to service of process by any means authorized by Georgia or federal law.
- 8.9 **Joint and Several Liability.** The liability of all persons and entities obligated in any manner hereunder as an Indemnitor shall be joint and several.
- 8.10 **Headings.** All article, section or other headings appearing in this Indemnity are for convenience of reference only and shall be disregarded in construing this Indemnity.
- 8.11 **Defined Terms.** Unless otherwise defined herein, capitalized terms used in this Indemnity shall have the meanings attributed to such terms in the Loan Agreement.
- 8.12 **Rules of Construction.** The word "Borrower" as used herein shall include both the named Borrower and any other person at any time assuming or otherwise becoming primarily liable for all or any part of the obligations of the named Borrower under the Credit Agreement and the other Loan Documents. The term "person" as used herein shall include any individual, company, trust or other legal entity of any kind whatsoever. If this Indemnity is executed by more than one person, the term "Indemnitor" shall include all such persons. The word "Lender" as used herein shall include Lender, its successors, assigns and affiliates.
- 8.13 **Use of Singular and Plural; Gender.** When the identity of the parties or other circumstances make it appropriate, the singular number includes the plural, and the masculine gender includes the feminine and/or neuter.
- 8.14 **Exhibits, Schedules and Riders.** All exhibits, schedules, riders and other items attached hereto are incorporated into this Indemnity by such attachment for all purposes.
- 8.15 **Integration; Interpretation.** This Indemnity contains the entire agreement of the parties with respect to the matters contemplated hereby and supersedes all prior negotiations or agreements, written or oral. This Indemnity shall not be modified except by written instrument executed by all parties.

IN WITNESS WHEREOF, this Indemnity has been executed under seal as of the date first set forth above.

"LENDER"

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: 
Name: Carmela Massari
Title: Senior Vice President, Loan Portfolio Manager

By: _____
Name: _____
Title: _____

"INDEMNITOR"

BARRETT CARPET MILLS INC.

By: _____
Name: _____
Title: Authorized Signing Officer

IN WITNESS WHEREOF, this Indemnity has been executed under seal as of the date first set forth above.

"LENDER"

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

"INDEMNITOR"

BARRETT CARPET MILLS INC.

By: Kevin Black
Name: Kevin Black
Title: Authorized Signing Officer

EXHIBIT A - DESCRIPTION OF PROPERTY

Exhibit A to Hazardous Materials Indemnity Agreement between Barrett Carpet Mills, Inc., a corporation organized under the laws of the State of Georgia ("**Indemnitor**") and Wells Fargo Capital Finance Corporation Canada, an Ontario corporation (collectively with its successors or assigns, "**Lender**"), dated as of July ____, 2013.

All that certain real property located in the County of Whitfield, State of Georgia, described as follows:

Assessor's Tax Parcel Number: TAX PARCEL NUMBER.

LEGAL DESCRIPTION

MELICA KENDRICK
Clerk Superior Court, WHITFIELD County, Ga.
Bk: 05930 Pg 0223

doc # 7785

UCC FINANCING STATEMENT AMENDMENT
FOLLOW INSTRUCTIONS

EN
ATT

A. NAME & PHONE OF CONTACT AT FILER (optional)
Valerie L. Combs (404) 885-2744

B. E-MAIL CONTACT AT FILER (optional)
Valerie.combs@troutmansanders.com

C. SEND ACKNOWLEDGMENT TO: (Name and Address)

Valerie L. Combs, Esq.
Troutman Sanders LLP
600 Peachtree Street, NE, Suite 5200
Atlanta, Georgia 30308

Return to:
HODGES & BROADAWAY
678.445.4926
2230 Towne Lake Parkway
Building 200, Suite 120
Woodstock, GA 30189 H-96.1891

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER
Deed Book 5049, Page 224, Filed July 26, 2007

1b. This FINANCING STATEMENT AMENDMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS
Filer: attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13

2. TERMINATION: Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3. ASSIGNMENT (full or partial): Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9
For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4. CONTINUATION: Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5. PARTY INFORMATION CHANGE:
Check one of these two boxes:
This Change affects Debtor or Secured Party of record

AND Check one of these three boxes to:
 CHANGE name and/or address: Complete item 6a or 6b; and item 7a or 7b and item 7c
 ADD name: Complete item 7a or 7b, and item 7c
 DELETE name: Give record name to be deleted in item 6a or 6b

6. CURRENT RECORD INFORMATION: Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME
Barrett Carpet Mills, Inc.

OR

6b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
--------------------------	---------------------	-------------------------------	--------

7. CHANGED OR ADDED INFORMATION: Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME

OR

7b. INDIVIDUAL'S SURNAME

INDIVIDUAL'S FIRST PERSONAL NAME	INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
----------------------------------	--	--------

7c. MAILING ADDRESS

CITY	STATE	POSTAL CODE	COUNTRY
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8. COLLATERAL CHANGE: Also check one of these four boxes: ADD collateral DELETE collateral RESTATE covered collateral ASSIGN collateral
Indicate collateral:

9. NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT: Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment)
If this is an Amendment authorized by a DEBTOR, check here and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME
Red Ash Capital Partners II Limited Partnership

OR

9b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
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10. OPTIONAL FILER REFERENCE DATA:
Filed in Whitfield County, GA Real Estate Records

MELICA KENDRICK
Clerk Superior Court, WHITFIELD County, Ga.
Bk 05930 Pg 0224

doc # 7786

UCC FINANCING STATEMENT AMENDMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) Valerie L. Combs (404) 885-2744
B. E-MAIL CONTACT AT FILER (optional) Valerie.combs@troutmansanders.com
C. SEND ACKNOWLEDGMENT TO: (Name and Address)
<input type="checkbox"/> Valerie L. Combs, Esq. Troutman Sanders LLP 600 Peachtree Street, NE, Suite 5200 Atlanta, Georgia 30308
<input checked="" type="checkbox"/> <i>new to:</i> HODGES & BROADAWAY 678.445.4926 2230 Towne Lake Parkway Building 200, Suite 120 Woodstock, GA 30189 <i>HD96.1891</i>

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER
Deed Book 5035, Page 24, Filed July 2, 2007

1b. This FINANCING STATEMENT AMENDMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS
Filer: attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13

2. TERMINATION: Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3. ASSIGNMENT (full or partial): Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9
For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4. CONTINUATION: Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5. PARTY INFORMATION CHANGE:
 Check one of these two boxes:
 This Change affects Debtor or Secured Party of record

AND Check one of these three boxes to:
 CHANGE name and/or address: Complete item 6a or 6b; and item 7a or 7b and item 7c
 ADD name: Complete item 7a or 7b, and item 7c
 DELETE name: Give record name to be deleted in item 6a or 6b

6. CURRENT RECORD INFORMATION: Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME Barrett Carpet Mills, Inc.			
OR 6b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

7. CHANGED OR ADDED INFORMATION: Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME			
OR 7b. INDIVIDUAL'S SURNAME			
INDIVIDUAL'S FIRST PERSONAL NAME			
INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)			SUFFIX

7c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
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8. COLLATERAL CHANGE: Also check one of these four boxes: ADD collateral DELETE collateral RESTATE covered collateral ASSIGN collateral
 Indicate collateral:

9. NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT: Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment)
 If this is an Amendment authorized by a DEBTOR, check here and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME Red Ash Capital Partners II Limited Partnership			
OR 9b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

10. OPTIONAL FILER REFERENCE DATA:
 Filed in Whitfield County, GA Real Estate Records

UCC FINANCING STATEMENT AMENDMENT

FOLLOW INSTRUCTIONS

FILED AND RECORDED
08/14/2013 01:17PM
UCC CONTROL #: 1552013001149
MELICA KENDRICK
CLERK OF SUPERIOR COURT
WHITFIELD COUNTY

A. NAME & PHONE OF CONTACT AT FILER (optional)
Valerie L. Combs (404) 885-2744

B. E-MAIL CONTACT AT FILER (optional)
Valerie.combs@troutmansanders.com

C. SEND ACKNOWLEDGMENT TO: (Name and Address)

Valerie L. Combs, Esq.
Troutman Sanders LLP
600 Peachtree Street, NE, Suite 5200
Atlanta, Georgia 30308

Network:
HODGES & BROADAWAY
678.445.4926
2230 Towne Lake Parkway
Building 200, Suite 120
Woodstock, GA 30189 HD 9 6.1591

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER
155-2007-0851, Filed July 2, 2007

1b. This FINANCING STATEMENT AMENDMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS
Filer: attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13

2. **TERMINATION:** Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3. **ASSIGNMENT** (full or partial): Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9
For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4. **CONTINUATION:** Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5. **PARTY INFORMATION CHANGE:**
Check one of these two boxes:
This Change affects Debtor or Secured Party of record

AND Check one of these three boxes to:
 CHANGE name and/or address: Complete item 6a or 6b; and item 7a or 7b and item 7c
 ADD name: Complete item 7a or 7b, and item 7c
 DELETE name: Give record name to be deleted in item 6a or 6b

6. **CURRENT RECORD INFORMATION:** Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME
Barrett Carpet Mills, Inc.

OR

6b. INDIVIDUAL'S SURNAME | FIRST PERSONAL NAME | ADDITIONAL NAME(S)/INITIAL(S) | SUFFIX

7. **CHANGED OR ADDED INFORMATION:** Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME

OR

7b. INDIVIDUAL'S SURNAME | INDIVIDUAL'S FIRST PERSONAL NAME | INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S) | SUFFIX

7c. MAILING ADDRESS | CITY | STATE | POSTAL CODE | COUNTRY

8. **COLLATERAL CHANGE:** Also check one of these four boxes: ADD collateral DELETE collateral RESTATE covered collateral ASSIGN collateral
Indicate collateral:

9. **NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT:** Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment)
If this is an Amendment authorized by a DEBTOR, check here and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME
Red Ash Capital Partners II Limited Partnership

OR

9b. INDIVIDUAL'S SURNAME | FIRST PERSONAL NAME | ADDITIONAL NAME(S)/INITIAL(S) | SUFFIX

10. **OPTIONAL FILER REFERENCE DATA:**
Filed in Whitfield, County GA Central Index

FILED AND RECORDED
08/14/2013 01:16PM
UCC CONTROL #: 1552013001147
MELICA KENDRICK
CLERK OF SUPERIOR COURT
WHITFIELD COUNTY

UCC FINANCING STATEMENT AMENDMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) Valerie L. Combs (404) 885-2744
B. E-MAIL CONTACT AT FILER (optional) Valerie.combs@troutmansanders.com
C. SEND ACKNOWLEDGMENT TO: (Name and Address) <input type="checkbox"/> Valerie L. Combs, Esq. Troutman Sanders LLP 600 Peachtree Street, NE, Suite 5200 Atlanta, Georgia 30308 <input checked="" type="checkbox"/> RETURN TO: HODGES & BROADAWAY 678.445.4926 2230 Towne Lake Parkway Building 200, Suite 120 Woodstock, GA 30189 <i>HP96.1891</i>

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER
155-2007-0935, Filed July 25, 2007

1b. This FINANCING STATEMENT AMENDMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS
Filer attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13

2. **TERMINATION:** Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3. **ASSIGNMENT** (full or partial) Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9
For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4. **CONTINUATION:** Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5. **PARTY INFORMATION CHANGE:**
Check one of these two boxes:
This Change affects Debtor or Secured Party of record
AND Check one of these three boxes to:
 CHANGE name and/or address: Complete item 6a or 6b, and item 7a or 7b and item 7c
 ADD name: Complete item 7a or 7b, and item 7c
 DELETE name: Give record name to be deleted in item 6a or 6b

6. **CURRENT RECORD INFORMATION:** Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME
Barrett Carpet Mills, Inc.

OR

6b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
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7. **CHANGED OR ADDED INFORMATION:** Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME

OR

7b. INDIVIDUAL'S SURNAME

INDIVIDUAL'S FIRST PERSONAL NAME	SUFFIX
INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX

7c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
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8. **COLLATERAL CHANGE:** Also check one of these four boxes: ADD collateral DELETE collateral RESTATE covered collateral ASSIGN collateral
Indicate collateral:

9. **NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT:** Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment)
If this is an Amendment authorized by a DEBTOR, check here and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME
Red Ash Capital Partners II Limited Partnership

OR

9b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
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10. **OPTIONAL FILER REFERENCE DATA:**
Filed in Whitfield, County GA Central Index



FILED AND RECORDED
 08/14/2013 01:17PM
 UCC CONTROL #: 1552013001148
 MELICA KENDRICK
 CLERK OF SUPERIOR COURT
 WHITFIELD COUNTY

UCC FINANCING STATEMENT AMENDMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional)
 Valerie L. Combs (404) 885-2744

B. E-MAIL CONTACT AT FILER (optional)
 Valerie.combs@troutmansanders.com

C. SEND ACKNOWLEDGMENT TO: (Name and Address)

Valerie L. Combs, Esq.
 Troutman Sanders LLP
 600 Peachtree Street, NE, Suite 5200
 Atlanta, Georgia 30308

HODGES & BROADAWAY
 678.445.4926
 2230 Towne Lake Parkway,
 Building 200, Suite 120
 Woodstock, GA 30189 HOJG.19-1

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1a. INITIAL FINANCING STATEMENT FILE NUMBER
 155-2007-0936, Filed July 25, 2007

1b. This FINANCING STATEMENT AMENDMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS
 Filer: attach Amendment Addendum (Form UCC3Ad) and provide Debtor's name in item 13

2. **TERMINATION:** Effectiveness of the Financing Statement identified above is terminated with respect to the security interest(s) of Secured Party authorizing this Termination Statement

3. **ASSIGNMENT** (full or partial): Provide name of Assignee in item 7a or 7b, and address of Assignee in item 7c and name of Assignor in item 9
 For partial assignment, complete items 7 and 9 and also indicate affected collateral in item 8

4. **CONTINUATION:** Effectiveness of the Financing Statement identified above with respect to the security interest(s) of Secured Party authorizing this Continuation Statement is continued for the additional period provided by applicable law

5. **PARTY INFORMATION CHANGE:**

Check one of these two boxes:
 This Change affects Debtor or Secured Party of record

AND Check one of these three boxes to:
 CHANGE name and/or address: Complete item 6a or 6b; and item 7a or 7b and item 7c
 ADD name: Complete item 7a or 7b, and item 7c
 DELETE name: Give record name to be deleted in item 6a or 6b

6. **CURRENT RECORD INFORMATION:** Complete for Party Information Change - provide only one name (6a or 6b)

6a. ORGANIZATION'S NAME
 Barrett Carpet Mills, Inc.

OR

6b. INDIVIDUAL'S SURNAME FIRST PERSONAL NAME ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

7. **CHANGED OR ADDED INFORMATION:** Complete for Assignment or Party Information Change - provide only one name (7a or 7b) (use exact, full name, do not omit, modify, or abbreviate any part of the Debtor's name)

7a. ORGANIZATION'S NAME

OR

7b. INDIVIDUAL'S SURNAME
 INDIVIDUAL'S FIRST PERSONAL NAME
 INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

7c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

8. **COLLATERAL CHANGE:** Also check one of these four boxes: ADD collateral DELETE collateral RESTATE covered collateral ASSIGN collateral
 Indicate collateral

9. **NAME OF SECURED PARTY OF RECORD AUTHORIZING THIS AMENDMENT:** Provide only one name (9a or 9b) (name of Assignor, if this is an Assignment)
 If this is an Amendment authorized by a DEBTOR, check here and provide name of authorizing Debtor

9a. ORGANIZATION'S NAME
 Red Ash Capital Partners II Limited Partnership

OR

9b. INDIVIDUAL'S SURNAME FIRST PERSONAL NAME ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

10. **OPTIONAL FILER REFERENCE DATA:**
 Filed in Whitfield, County GA Central Index

MELICA KENDRICK
Clerk Superior Court, WHITFIELD County, Ga.
Bk 05930 Pg 0244-0252

doc # 7788

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) Valerie L. Combs (404) 885-2744
B. E-MAIL CONTACT AT FILER (optional) valerie.combs@troutmansanders.com
C. SEND ACKNOWLEDGMENT TO: (Name and Address) Valerie L. Combs, Esq. Troutman Sanders LLP 600 Peachtree Street, N.E., Suite 5200 Atlanta, GA 30308-2216

Return to:
HODGES & BROADAWAY
678.445.4926
2230 Towne Lake Parkway
Building 200, Suite 120
Woodstock, GA 30189-1851

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor name (1a or 1b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION'S NAME BARRETT CARPET MILLS, INC.					
OR	1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
1c. MAILING ADDRESS 2216 Abutment Road		CITY Dalton	STATE GA	POSTAL CODE 30721	COUNTRY USA

2. DEBTOR'S NAME: Provide only one Debtor name (2a or 2b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION'S NAME					
OR	2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
2c. MAILING ADDRESS		CITY	STATE	POSTAL CODE	COUNTRY

3. SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION'S NAME WELLS FARGO CAPITAL FINANCE CORPORATION CANADA					
OR	3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	
3c. MAILING ADDRESS 40 King Street West, Suite 2500		CITY Toronto	STATE Ontario	POSTAL CODE M5H 3Y2	COUNTRY Canada

4. COLLATERAL: This financing statement covers the following collateral:

All personal property and fixtures described in Schedule 1 attached hereto and incorporated herein by reference, attached, owned or hereafter acquired by Debtor and located or to be located in, on or about or in any way pertaining to the use and/or operation of the improvements now existing or to be constructed on the real property described in Exhibit "A" attached hereto and incorporated herein by reference.

The real property is described in Exhibit "A" attached hereto and incorporated herein by reference.

FILED WITH: Whitfield County, Georgia Real Estate Records

5. Check only if applicable and check only one box: Collateral is held in a Trust (see UCC1Ad, item 17 and Instructions) being administered by a Decedent's Personal Representative

6a. Check only if applicable and check only one box:
 Public-Finance Transaction Manufactured-Home Transaction A Debtor is a Transmitting Utility

6b. Check only if applicable and check only one box:
 Agricultural Lien Non-UCC Filing

7. ALTERNATIVE DESIGNATION (if applicable): Lessee/Lessor Consignee/Consignor Seller/Buyer Bailee/Bailor Licensee/Licenser

8. OPTIONAL FILER REFERENCE DATA:

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS

9. NAME OF FIRST DEBTOR: Same as line 1a or 1b on Financing Statement; if line 1b was left blank because Individual Debtor name did not fit, check here

OR	9a. ORGANIZATION'S NAME	BARRETT CARPET MILLS, INC.		
	9b. INDIVIDUAL'S SURNAME			
	FIRST PERSONAL NAME			
	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX	

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

10. DEBTOR'S NAME: Provide (10a or 10b) only one additional Debtor name or Debtor name that did not fit in line 1b or 2b of the Financing Statement (Form UCC1) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name) and enter the mailing address in line 10c

OR	10a. ORGANIZATION'S NAME				
	10b. INDIVIDUAL'S SURNAME				
	INDIVIDUAL'S FIRST PERSONAL NAME				
	INDIVIDUAL'S ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX		

10c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
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11. ADDITIONAL SECURED PARTY'S NAME or ASSIGNOR SECURED PARTY'S NAME: Provide only one name (11a or 11b)

OR	11a. ORGANIZATION'S NAME				
	11b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX	

11c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
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12. ADDITIONAL SPACE FOR ITEM 4 (Collateral):

<p>13. <input checked="" type="checkbox"/> This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS (if applicable)</p> <p>15. Name and address of a RECORD OWNER of real estate described in item 16 (if Debtor does not have a record interest): See Exhibit "A" attached hereto and by this reference made a part hereof.</p>	<p>14. This FINANCING STATEMENT: <input type="checkbox"/> covers timber to be cut <input type="checkbox"/> covers as-extracted collateral <input type="checkbox"/> is filed as a fixture filing</p> <p>16. Description of real estate:</p>
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17. MISCELLANEOUS:

SCHEDULE 1Financing Statement (*continued*)

Name of Debtor: BARRETT CARPET MILLS, INC.

All of such Debtor's right, title, and interest in and to the following, whether now owned or hereafter acquired or arising and wherever located (the "Collateral"):

(a) all of such Debtor's "Accounts" meaning all accounts (as that term is defined in Article 9 of the New York Uniform Commercial Code, as in effect from time to time (the "Code"); provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, priority, or remedies with respect to Secured Party's Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies;

(b) all of such Debtor's "Books" meaning all books and records (including Debtor's Records indicating, summarizing, or evidencing Debtor's assets (including the Collateral) or liabilities, Debtor's Records relating to Debtor's business operations or financial condition, and Debtor's goods or General Intangibles related to such information);

(c) all of such Debtor's "Chattel Paper" meaning all chattel paper (as that term is defined in the Code), and includes tangible chattel paper and electronic chattel paper;

(d) all of such Debtor's "Commercial Tort Claims" meaning all commercial tort claims (as that term is defined in the Code);

(e) all of such Debtor's "Deposit Accounts" meaning all deposit accounts (as that term is defined in the Code);

(f) all of such Debtor's "Equipment" meaning all equipment (as that term is defined in the Code);

(g) all of such Debtor's "Farm Products" meaning all farm products (as that term is defined in the Code);

(h) all of such Debtor's "Fixtures" meaning all fixtures (as that term is defined in the Code);

(i) all of such Debtor's "General Intangibles" meaning all general intangibles (as that term is defined in the Code), and includes payment intangibles, software, contract rights, rights to payment, rights under Swap Agreements (including the right to receive payment on account of the termination (voluntarily or involuntarily) of such Swap Agreements), rights arising under common law, statutes, or regulations, choses or things in action, goodwill, Intellectual Property, Intellectual Property Licenses, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, including Intellectual Property Licenses, infringement claims, pension plan refunds, pension plan refund claims, insurance premium rebates, tax refunds, and tax refund claims, interests in a partnership or limited liability company which do not constitute a security under Article 8 of the Code, and any other personal property other than Commercial Tort Claims, money, Accounts, Chattel Paper, Deposit Accounts, goods, Investment Property, Negotiable Collateral, and oil, gas, or other minerals before extraction;

(j) all of such Debtor's "Inventory" meaning all inventory (as that term is defined in the Code);

(k) all of such Debtor's "Investment Property" meaning (A) any and all investment property (as that term is defined in the Code), and (B) any and all of the following (regardless of whether classified as investment property under the Code): all Pledged Interests, Pledged Operating Agreements, and Pledged Partnership Agreements;

(l) all of such Debtor's "Intellectual Property" meaning any and all Patents, Copyrights, Trademarks, trade secrets, know-how, inventions (whether or not patentable), algorithms, software programs (including source code and object code), processes, product designs, industrial designs, blueprints, drawings, data, customer lists, URLs and domain names, specifications, documentations, reports, catalogs, literature, and any other forms of technology or proprietary information of any kind, including all rights therein and all applications for registration or registrations thereof

(m) all of such Debtor's "Intellectual Property Licenses" meaning, with respect to any Person (the "Specified Party"), (A) any licenses or other similar rights provided to the Specified Party in or with respect to Intellectual Property owned or controlled by any other Person, and (B) any licenses or other similar rights provided to any other Person in or with respect to Intellectual Property owned or controlled by the Specified Party, in each case, including (x) any software license agreements (other than license agreements for commercially available off-the-shelf software that is generally available to the public which have been licensed to Debtor pursuant to end-user licenses), (y) intentionally omitted, and (z) the right to use any of the licenses or other similar rights described in this definition in connection with the enforcement of the Secured Party's rights under the Financing Agreements;

(n) all of such Debtor's "Negotiable Collateral" meaning all letters of credit, letter-of-credit rights, instruments, promissory notes, drafts and documents (as each such term is defined in the Code);

(o) all of such Debtor's "Pledged Interests" meaning all of Debtor's right, title and interest in and to all of the Equity Interests now owned or hereafter acquired by Debtor, regardless of class or designation, including in each of the Pledged Companies, and all substitutions therefor and replacements thereof, all proceeds thereof and all rights relating thereto, also including any certificates representing the Equity Interests, the right to receive any certificates representing any of the Equity Interests, all warrants, options, share appreciation rights and other rights, contractual or otherwise, in respect thereof and the right to receive all dividends, distributions of income, profits, surplus, or other compensation by way of income or liquidating distributions, in cash or in kind, and all cash, instruments, and other property from time to time received, receivable, or otherwise distributed in respect of or in addition to, in substitution of, on account of, or in exchange for any or all of the foregoing (including all of such Debtor's Pledged Operating Agreements and Pledged Partnership Agreements);

(p) all of such Debtor's "Securities Accounts" meaning all securities accounts (as that term is defined in the Code);

(q) all of such Debtor's "Supporting Obligations" meaning all supporting obligations (as such term is defined in the Code), and includes letters of credit and guaranties issued in support of Accounts, Chattel Paper, documents, General Intangibles, instruments or Investment Property;

(r) all of such Debtor's money, Cash Equivalents, or other assets of such Debtor that now or hereafter come into the possession, custody, or control of Secured Party (or its agent or designee) or any other Affiliates, including in their capacity as a Bank Product Provider, officers, directors, employees, legal counsel, and agents; and

(s) all of the proceeds (as such term is defined in the Code) and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance or Commercial Tort Claims covering or relating to any or all of the foregoing, and any and all Accounts, Books, Chattel Paper, Deposit Accounts, Equipment, Fixtures, General Intangibles, Inventory, Investment Property, Intellectual Property, Negotiable Collateral, Pledged Interests, Securities Accounts, Supporting Obligations, money, or other tangible or intangible property resulting from the sale, lease, license, exchange, collection, or other disposition of any of the foregoing, the proceeds of any award in condemnation with respect to any of the foregoing, any rebates or refunds, whether for taxes or otherwise, and all proceeds of any such proceeds, or any portion thereof or interest therein, and the proceeds thereof, and all proceeds of any loss of, damage to, or destruction of the above, whether insured or not insured, and, to the extent not otherwise included, any indemnity, warranty, or guaranty payable by reason of loss or damage to, or otherwise with respect to any of the foregoing (the "Proceeds"). Without limiting the generality of the foregoing, the term "Proceeds" includes whatever is receivable or received when Investment Property or proceeds are sold, exchanged, collected, or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes proceeds of any indemnity or guaranty payable to Debtor or Secured Party from time to time with respect to any of the Investment Property.

Capitalized terms used above without definition have the meanings given them in the Guaranty and Security Agreement (the "Security Agreement") dated as of July ____, 2013, given by Debtor, as Grantor, for the benefit of Secured Party, as Lender. This financing statement is filed in connection with the Security Agreement and that certain Deed to Secure Debt and Assignment of Rents and Leases dated as of July ____, 2013, given by Debtor, as Grantor, for the benefit of Secured Party, as Lender, and recorded in the Official Records of Whitfield County, State of Georgia (the "Deed to Secure Debt"). The real property encumbered by the Deed to Secure Debt, and on which the personal property described herein is located (other than as described hereinabove), is described on Exhibit A attached hereto (the "Real Property"). Any term used or defined in the Code, as in effect from time to time, which is not defined in this financing statement has the meaning given to that term in the Code, as in effect from time to time, when used in this financing statement. However, if a term is defined in Article 9 of the Code differently than in another Article of the Code, the term has the meaning specified in Article 9.

The filing of this financing statement shall not be construed to derogate from or impair the lien or provisions of the Deed to Secure Debt with respect to any property described in it which is real property. Similarly, nothing in this financing statement shall be construed to alter any of the rights of Secured Party as determined by the Security Agreement or the Deed to Secure Debt or the priority of Secured Party's lien thereby created. This financing statement is declared to be for the protection of Secured Party in the event any court shall at any time hold that in order to be effective against a particular class of persons, including the United States Government or any of its agencies, notice of Secured Party's priority of interest in any property or interests described in the Security Agreement must be filed in the office where this financing statement is filed.

EXHIBIT "A"

LEGAL DESCRIPTION

Tract I

TRACT I: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lots 9 and 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, and being that identical tract shown as containing 1.330 acres on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096 for Roy Barrett, dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia, being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed, begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road as measured along the west side of said Abutment Road, thence south 88 degrees 35 minutes west 526.72 feet; thence proceed north 01 degree 35 minutes 30 seconds west 211.53 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 24 minutes 30 seconds west 352.35 feet; thence north 01 degree 35 minutes 30 seconds west 54.55 feet; thence south 88 degrees 29 minutes west 2.47 feet to an iron pin; thence north 01 degree 31 minutes west 110.46 feet; thence north 88 degrees 51 minutes east 354.68 feet to the west right-of-way of a 24 feet in width road easement; thence south 01 degree 35 minutes 30 seconds east along said road easement 162.28 feet to the true point of beginning of the tract herein conveyed.

Tract II

TRACT II: A certain tract or parcel of land lying and being in Land Lot 333 of the 12th District and 3rd Section of Whitfield County, Georgia, being part of Lot 10 of the J. A. McFarland Farm Subdivision, as per plat of same recorded in Plat Book 1, Page 86 - 87, Clerk's Office, Whitfield County, Georgia, being that 0.733 acre tract shown on a plat of survey prepared by Peter L. Bakkum, Registered Land Surveyor No. 1096, for Roy Barrett dated January 14, 1981, of record in Plat Cabinet B, Slide 33, Clerk's Records, Whitfield County, Georgia and being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING of the tract herein conveyed begin at a point on the west side of the right-of-way of Abutment Road, said point being located 350 feet north of the northwest corner of the intersection of said Abutment Road with Brickyard Road, as measured along the west side of said Abutment Road and proceed south 88 degrees 35 minutes west a distance of 526.72 feet to THE TRUE POINT OF BEGINNING of the tract herein conveyed; thence south 88 degrees 35 minutes west 352.35 feet;

EXHIBIT "A"

LEGAL DESCRIPTION

thence north 01 degree 35 minutes 30 seconds west 90.10 feet;
 thence south 88 degrees 24 minutes 30 seconds west 352.35 feet to
 the west right-of-way of a 24 feet in width road easement; thence
 south 01 degree 35 minutes 30 seconds east a distance of 91.18 feet
 to the TRUE POINT OF BEGINNING of the tract herein conveyed.

ALSO CONVEYED HEREIN, is a perpetual easement for the purpose of
 ingress and egress over, through and across the following lands,
 to-wit: A certain tract or parcel of land lying and being in
 Land Lot 333 of the 12th District and 3rd Section of Whitfield
 County, Georgia, being part of Lots 9 and 10 of J. A. McFarland
 Farm Subdivision, as per plat of same recorded in Plat Book 1,
 Page 86 - 87, Clerk's Office, Whitfield County, Georgia and being
 that "24 feet road easement" shown on a plat of survey prepared
 by Peter L. Bakkum, Registered Land Surveyor No. 1096 for Roy
 Barrett, dated January 14, 1981, said easement area being more
 particularly described as follows:

BEGINNING at a point on the west side of the right-of-way of Abutment
 Road, said point being located 374.86 feet north of the northwest
 corner of the intersection of said Abutment Road with Brickyard
 Road, as measured along the west side of said Abutment Road; thence
 south 88 degrees 24 minutes 30 seconds west 526.74 feet; thence
 north 01 degree 35 minutes 30 seconds west 350.56 feet; thence
 north 88 degrees 51 minutes east 24 feet; thence south 01 degree
 35 minutes 30 seconds east 326.37 feet; thence north 88 degrees
 24 minutes 30 seconds east 502.78 feet to the west right-of-way
 of Abutment Road; thence south 01 degree 31 minutes east along
 the west right-of-way of Abutment Road 24 feet to the point of
 beginning.

Said property over which this perpetual easement is granted is
 adjacent to the eastside of Tract I hereinabove described and
 adjacent to a portion of the east line of Tract II hereinabove
 described, and this easement is granted as appurtenant to Tract I
 and Tract II, hereinabove described, for the purpose of ingress
 from Abutment Road to said Tracts and for egress from said tracts
 to Abutment Road. The easement herein granted shall bind the heirs,
 successors and assigns of the grantor herein and shall inure to the
 benefit of the successors in title of the grantee herein.

EXHIBIT "A"

LEGAL DESCRIPTIONTract III

ALL THAT TRACT OR PARCEL OF LAND lying, situated and being in Land Lot 333, 12th District, 3rd Section, Whitfield County, Georgia, and being known and described as parts of Lots 9, 10 and 13 of the J. A. MacFarland Farm Subdivision, as per plat of said subdivision recorded in Plat Book 1, Page 86 (Plat Cabinet A, Slide 21), Whitfield County Land Records, and being more particularly described as follows:

COMMENCE at the northwest corner of the intersection of Brickyard Road with Abutment Road, run thence North along the west side of said Abutment Road 350 feet to **THE TRUE POINT OF BEGINNING**. **FROM THE TRUE POINT OF BEGINNING AS THUS ESTABLISHED**, run South 88 degrees 35 minutes West 881.88 feet to an iron pin; thence continue South 88 degrees 29 minutes West 200 feet to an iron pin; thence North 01 degrees 31 minutes West 265 feet to an iron pin; thence North 88 degrees 29 minutes East 197.53 feet to a point; thence North 01 degree 31 minutes West 110.46 feet to a point; thence North 88 degrees 51 minutes East 681.66 feet to a point; thence South 01 degree 31 minutes East 180 feet to a point; thence North 88 degrees 51 minutes East 200 feet to a point; thence South 01 degree 31 minutes East 191.40 feet to the **TRUE POINT OF BEGINNING**.

LESS AND EXCEPT the lands previously conveyed to Barrett Carpet Mills, Inc. by virtue of a General Warranty Deed from Roy Barrett dated June 19, 1981, recorded at Deed Book 663, Page 240, in the Office of the Clerk of the Superior Court of Whitfield County, Georgia.

FURTHER LESS AND EXCEPT THE FOLLOWING RIGHTS-OF-WAY:

RIGHT-OF-WAY I: BEING that portion of the lands described above encompassed by a Public Road running in a northerly direction from the Brickyard Road traversing the westernmost portion of Parcel II and shown on the Plat prepared by Peter L. Bakkum, dated September 3, 1974.

RIGHT-OF-WAY II: BEING that portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on January 22, 1990 in Deed Book 2110, Page 337, Superior Court Clerk's Office, Whitfield County, Georgia.

RIGHT-OF-WAY III: BEING any portion of the lands described above which Roy C. Barrett conveyed to Whitfield County as a right-of-way for Abutment Road by Right of Way Deed dated March 31, 1989 and filed and recorded on August 1, 1989 in Deed Book 2078, Page 157, Superior Court Clerk's Office, Whitfield County, Georgia.

EXHIBIT "A"

LEGAL DESCRIPTIONTract IV

All that tract and parcel and land and being part of land lot number 333 of the 12th District and 3rd Section of Whitfield County Georgia and being .50 acres more or less as per a survey of said property recorded in Plat book D page 154 in records of the Clerk of Court of Superior Court of Whitfield County Georgia. Said Plat is hereby incorporated for a full and complete description of the property. This property is the same property conveyed to the grantors by a Warranty Deed recorded at Deed Book 2254 paid 332 and 333 of Deed Record of Clerk of the Superior Court of Whitfield County Georgia of November 18, 1991.

Appendix "E"

Guarantee from Kraus Properties LP and Kraus Properties Inc.
dated August 6, 2013;

General Security Agreement (undated) from Kraus Properties
LP and Kraus Properties Inc.; and,

Patent and Trademark Security Agreement by Kraus Properties
LP dated August 6, 2013.

GUARANTEE
KRAUS PROPERTIES INC. and KRAUS PROPERTIES LP

THIS GUARANTEE (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, this “**Guarantee**”) dated August 6, 2013, is given by **KRAUS PROPERTIES INC.** and **KRAUS PROPERTIES LP** (collectively, the “**Guarantor**”) to and in favour of **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as Lender and agent for its Affiliates and assigns under the Credit Agreement (as defined below) (the “**Lender**”).

WHEREAS:

- A.** Lender has entered into certain financing arrangements with Kraus Carpet LP, Kraus Canada LP, Strudex LP, Kraus USA, Inc. and Barrett Carpet Mills, Inc. (collectively “**Borrowers**”), the Guarantor and their Affiliates as set out in a credit agreement dated as of the date hereof (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Credit Agreement**”) pursuant to which Lender will make loans and provide other financial accommodations to Borrowers; and
- B.** In order to induce Lender to enter into the Credit Agreement and the other Financing Agreements and to make the loans and other financial accommodations under the Credit Agreement, and as a condition precedent thereto, Lender requires that Guarantor shall have executed and delivered this Guarantee.

NOW THEREFORE in consideration of the extension of credit by Lender to the Borrowers and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Guarantor, the Guarantor covenants and agrees, with and in favour of Lender as follows:

- 1. Guarantee
 - (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”): (i) the Obligations; and (ii) all expenses (including, without limitation, reasonable attorneys’ fees and legal expenses) incurred by Lender in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of Borrowers’, Guarantor’s and other Obligors’ (as hereinafter defined) obligations, liabilities and indebtedness as aforesaid, the rights of Lender in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Lender directly or indirectly arising out of or related to the relationships between Borrowers, Guarantor or any other Credit Party and Lender, whether such expenses are incurred before, during or after the initial or any renewal term of the Credit Agreement and the other Financing Agreements or after the commencement of

any case with respect to Borrowers, Guarantor or any other Credit Party under the BIA, CCAA or any similar statute.

- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Lender need not attempt to collect any Guaranteed Obligations from Borrowers, Guarantor or any other Credit Party or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Lender when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Lender may apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including reasonable attorneys' fees and legal expenses incurred by Lender with respect thereto or otherwise chargeable to Borrowers, Guarantor or any other Credit Party) and in such order as Lender may elect.
- (c) Payment by Guarantor shall be made to Lender at the office of Lender determined from time to time in accordance with Section 11 of this Guarantee, on demand as Guaranteed Obligations become due. Guarantor shall make all payments to Lender on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which Borrowers or any other Credit Party is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to interpose any claims, deductions, set-offs or counterclaims of any nature. Guarantor hereby waives, to the full extent allowed by law, any rights or benefits given by the provisions of any existing or future statutes which impose limitations upon the rights and powers of Lender hereunder with respect to claims against Guarantor.
- (d) To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Guarantee and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the "**Other Currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the "**Agreed Currency**") and Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Lender receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Subsection (d), continue in full force and effect.

- (e) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal or provincial law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by Guarantor without rendering such Guarantor's Guaranteed Obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Guarantor, Borrowers or any other Credit Party and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers, Guarantor or any other Credit Party is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to, (i) any amendment, modification, supplement, extension, renewal, or restatement of the Credit Agreement and any of the other Financing Agreements (other than those to which it is a party) that are amended, in each case, in accordance with the terms thereof, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Credit Agreement and the other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, extended, renewed or restated, increased or decreased, (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Lender for the obligations of Borrowers or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an "**Obligor**" and collectively, the "**Obligors**"), including, without limitation, the surrender or release by Lender of Guarantor hereunder, (iii) the exercise of, or refraining from the exercise of any rights against Borrowers, Guarantor or any other Obligor or any collateral and (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations. Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.
- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defense to this Guarantee, nor shall any other circumstance which might otherwise constitute a defense available to or legal or equitable discharge of Borrowers or any other Obligor in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defense to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect

by reason of any failure by Lender to perfect or continue perfection of any lien or security interest in any collateral or any delay by Lender in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to Borrowers or any other Obligor under the BIA, CCAA or any similar statute, Guarantor shall be liable therefor, even if Borrowers' or other Obligors' liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Lender has not made any representations to Guarantor with respect to Borrowers, any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Lender or any statements by Lender in connection with this Guarantee.

- (c) Until the payment and performance of the Guaranteed Obligations in full, Guarantor hereby irrevocably and unconditionally waives and relinquishes (i) all statutory, contractual, common law, equitable and all other claims against Borrowers, any Obligor, any collateral for the Guaranteed Obligations or other assets of Borrowers or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Lender by Guarantor hereunder and (ii) any and all other benefits which Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantor, Borrowers or any other Obligor upon the Guaranteed Obligations or realized from their property, other than payments permitted under the Credit Agreement or any other Financing Agreements.

3. Subordination

Other than payments permitted under the Credit Agreement or any other Financing Agreements, payment of all amounts now or hereafter owed to Guarantor by Borrowers or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Lender of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Lender as security for the Guaranteed Obligations.

4. Acceleration

Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable upon the occurrence of an Event of Default which is continuing.

5. Account Stated

The books and records of Lender showing the account between Lender and Borrowers or any Obligor shall be admissible in evidence in any action or proceeding against or involving Guarantor as *prima facie* proof, absent manifest error, of the items therein set forth, and the monthly statements of Lender rendered to Borrowers or any Obligor to the extent to which no written objection is made within 30 days from the date of sending thereof to Borrowers or any

Obligor shall be deemed conclusively correct and constitute an account stated between Lender and Borrowers or any Obligor and be binding on Guarantor.

6. Termination

This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until termination of the Credit Agreement by Lender.

7. Reinstatement

If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Guarantor shall be liable to pay to Lender, and does indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.

8. Amendments and Waivers

Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of each of Lender and Guarantor. Lender shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority

Guarantor is a corporation duly organized or a limited partnership duly formed and in good standing under the laws of its province or other jurisdiction of incorporation or formation, and is duly qualified and in good standing in all provinces or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, limited partnership agreement or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms.

10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver

- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Lender, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to conflicts of law).
- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Lender in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrowers or any Obligor and Lender or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on collateral at any time granted by Borrowers, Guarantor or any Obligor to Lender or to otherwise enforce its rights against Guarantor or its property).
- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made in accordance with the notice provisions of the Credit Agreement.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR OR LENDER IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

- (e) Lender shall not have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender that the losses were the result of acts or omissions of Lender constituting gross negligence or wilful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Credit Agreement and the other Financing Agreements.

11. Notices

All notices, requests and demands hereunder shall be in writing and delivered (and deemed to have been made if made) in accordance with the notice provisions of the Credit Agreement.

12. Partial Invalidity

If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

13. Entire Agreement

This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

14. Successors and Assigns

This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Lender and its successors, endorsees, transferees and permitted assigns. Guarantor may only assign its rights and/or obligations under this Guarantee or any interest herein, and Lender may assign its rights and obligations under this Guarantee, in accordance with the Credit Agreement. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee.

15. Construction

All capitalized terms used herein but not defined herein shall have the meanings given to them in the Credit Agreement. All references to the term "Guarantor" wherever used herein shall mean Guarantor and its successors and assigns, individually and collectively, jointly and severally (including, without limitation, any receiver, trustee or custodian for Guarantor or its assets or Guarantor in its capacity as debtor or debtor-in-possession under the BIA and CCAA). All references to the term "Lender" wherever used herein shall mean Lender and its successors and

assigns and all references to the term “Borrowers” wherever used herein shall mean Borrowers, or any one or more of them and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers, or any one or more of them, or any of their assets or Borrowers, or any one or more of them, in their capacity as debtor or debtor-in-possession under the BIA and CCAA). All references to the plural shall also mean the singular and to the singular shall also mean the plural. In the event of any conflict between the provisions of this Guarantee and the provisions of the Credit Agreement, the provisions of the Credit Agreement shall supersede and govern.

16. Execution

This Guarantee may be executed in one or more counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same agreement. Execution of this Guarantee may be made by facsimile or pdf signatures, which, for all purposes, shall be deemed to be original signatures.

17. Paramountcy

If there is any conflict or inconsistency between this Guarantee and the Credit Agreement, the provisions of the Credit Agreement shall govern and be paramount, and any such provision in this Guarantee shall be deemed to be amended to the extent necessary to eliminate any such conflict, inconsistency, ambiguity or difference. Notwithstanding the foregoing, if there is any right or remedy of Lender set out in this Guarantee or any part thereof that is not set out or provided for in the Credit Agreement, such additional right or remedy shall not constitute a conflict, inconsistency, ambiguity or difference.

18. Limitation Period

The limited period on this Guarantee shall not begin to run until demand is made hereunder, and such limitation period (in accordance with the *Limitations Act, 2002* (Ontario) or any other applicable law) is hereby expressly stated to be a period of six (6) years from the date such demand is made.

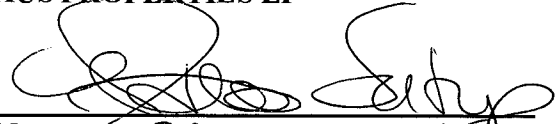
19. Language

It is the express wish of the parties hereto that this Guarantee and any related documents be drawn up and executed in English. *Les parties conviennent que la présente convention et tous les documents s’y rattachant soient rédigés et signés en anglais.*

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Guarantor has executed and delivered this Guarantee as of the day and year first above written.

KRAUS PROPERTIES INC., on behalf of
itself and in its capacity as the general partner of
KRAUS PROPERTIES LP

By: 
Name: PATRICIA SALTYS
Authorized Signing Officer

[Signature Page Canadian form Guarantee Kraus Properties and KPLP]

GENERAL SECURITY AGREEMENT
KRAUS PROPERTIES INC. and KRAUS PROPERTIES LP

THIS GENERAL SECURITY AGREEMENT (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, this “**Agreement**”), dated _____, 2013, is made by **KRAUS PROPERTIES INC. and KRAUS PROPERTIES LP** (collectively, the “**Debtor**”) to and in favour of **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as Lender and agent for its Affiliates and assigns under the Credit Agreement (as defined below) (the “**Lender**”).

WHEREAS:

- A.** Lender has entered into certain financing arrangements with Kraus Carpet LP, Kraus Canada LP, Strudex LP, Kraus USA, Inc. and Barrett Carpet Mills, Inc. (collectively, the “**Borrowers**”) and their Affiliates as set out in a credit agreement dated as of the date hereof (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Credit Agreement**”), pursuant to which Lender will make loans and provide other financial accommodations to Borrowers;
- B.** In order to induce Lender to enter into the Credit Agreement and the other Financing Agreements and to make the loans and other financial accommodations under the Credit Agreement, and as a condition precedent thereto, Lender requires that Debtor guarantee the Obligations of each other and the Borrowers owing under the Credit Agreement and the other Financing Agreements and have executed and delivered this Agreement.

NOW THEREFORE in consideration of the extension of credit by the Lender to the Borrowers and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Debtor, the Debtor covenants and agrees, with and in favour of the Lender as follows:

SECTION 1
DEFINITIONS

- 1.1 All capitalized terms used herein but not defined herein shall have the meanings given to them in the Credit Agreement. All terms used herein which are defined in the PPSA or the STA shall have the meanings given therein, as applicable, unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Lender and Debtor or to any other person herein, shall include their respective successors and assigns. The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “including” when used in this Agreement shall mean “including, without limitation”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted and/or consolidated from time to time and any successor statute thereto. An Event of Default shall exist or continue or

be continuing until such Event of Default is waived in accordance with the applicable agreement, or, without derogating from the cure rights, if any, provided to Debtor hereunder and under the Credit Agreement, is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured, as determined by Lender. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

- (a) “**Control Agreement**” shall mean any present or future agreement or agreements entered into by Debtor, Lender and the applicable issuer, securities intermediary or futures intermediary, whereby the parties intend for Lender to obtain control of Investment Property.
- (b) “**Futures Accounts**” shall mean all of the present or future futures accounts maintained for Debtor by a futures intermediary, including all futures contracts carried in such futures accounts and the agreements between Debtor and the futures intermediary governing such futures accounts.
- (c) “**Investment Property**” shall mean all or any part of any present or future interest of Debtor in present and after acquired investment property, including all securities, Securities Accounts and Futures Accounts, all of the present and future security entitlements of Debtor as an entitlement holder of such security entitlements, all of the present and future futures contracts of Debtor as a futures customer in respect of such futures contracts, and all proceeds of any such property.
- (d) “**PPSA**” shall mean the *Personal Property Security Act* (Ontario) as it may be from time to time amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.
- (e) “**Securities Accounts**” shall mean all of the present or future securities accounts maintained for Debtor by a securities intermediary, including all of the financial assets credited to such securities accounts, all related securities entitlements and the agreements between Debtor and the securities intermediary governing such securities accounts.
- (f) “**Software**” shall mean computer programs, data, databases and text (regardless of the form in which it exists or the media upon which it resides) including all source code, object code or executable modules relating thereto, and all versions thereof together with all Intellectual Property related thereto or incorporated therein.
- (g) “**STA**” shall mean the *Securities Transfer Act, 2006* (Ontario) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.
- (h) “**UCC**” shall mean the Uniform Commercial Code as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

SECTION 2
GRANT OF SECURITY INTEREST

- 2.1 To secure payment and performance of all Obligations, Debtor hereby grants to Lender a continuing security interest in, a lien upon and hereby assigns to Lender as security, all of Debtor's right, title and interest, both present and future, in all of its present, owned or held and after-acquired or held real and personal property of whatsoever nature or kind and wheresoever situate including the following property and interests in property of Debtor, whether now owned or hereafter acquired or existing, and in whatever form and wherever located (collectively, the "Collateral"), including:
- (a) Accounts;
 - (b) all present and future contract rights, general intangibles (including tax and duty refunds, Intellectual Property licenses, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents of title, documents, instruments, securities, financial assets and other investment property, letters of credit, bankers' acceptances and guarantees;
 - (c) all present and future monies, securities, credit balances, deposits, deposit accounts and other property of Debtor now or hereafter held or received by or in transit to Lender or its Affiliates or at any other depository or other institution from or for the account of Debtor whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future Liens, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including:
 - (i) rights and remedies under or relating to guarantees, contracts of suretyship, letters of credit and other insurance related to the Collateral;
 - (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party;
 - (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including returned, repossessed and reclaimed goods; and
 - (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;
 - (d) Inventory;
 - (e) Equipment;
 - (f) Records;
 - (g) Investment Property;

- (h) Intellectual Property; and
- (i) all products and proceeds of the foregoing, in any form, including insurance proceeds and any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

2.2 Notwithstanding the foregoing, Collateral shall not include:

- (a) the last day of the term of any lease (but upon the enforcement of Lender's rights hereunder, Lender shall stand possessed of such last day in trust to assign the same to any person acquiring such term);
- (b) the last day of the term of each Intellectual Property license granted to Debtor (but upon the enforcement of Lender's rights hereunder, Lender shall stand possessed of such last day in trust to assign the same to any person acquiring such term); or
- (c) any consumer goods.

2.3 The security interest granted hereby does not and shall not extend to, and Collateral shall not include any agreement, right, franchise, license or permit (the "**Contractual Rights**") to which Debtor is a party or of which Debtor has the benefit, to the extent that the creation of the security interest therein would constitute a breach of the terms of or permit any Person to terminate the contractual rights, but Debtor shall hold its interest therein in trust for Lender and shall assign as security such Contractual Rights to Lender forthwith upon obtaining the consent of the other party thereto. Debtor agrees that it shall, upon the request of Lender, use all commercially reasonable efforts to obtain any consent required to permit any Contractual Rights to be subjected to the security interest granted hereby.

SECTION 3 REPRESENTATIONS AND WARRANTIES

3.1 Debtor hereby represents and warrants to Lender the following (which shall survive the execution and delivery of this Agreement):

- (a) **Credit Agreement.** Each of the representations and/or warranties contained in the Credit Agreement made by Debtor is true and correct in all respects.
- (b) **Survival of Warranties; Cumulative.** All representations and warranties contained in this Agreement or any of the other Financing Agreements to which Debtor is a party shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation under the Credit Agreement and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Debtor shall now or hereafter give, or cause to be given, to Lender.

SECTION 4
AFFIRMATIVE AND NEGATIVE COVENANTS

- 4.1 **Credit Agreement Covenants**. Debtor hereby agrees and covenants to comply with each and every agreement and covenant it makes and/or has made pursuant to the Credit Agreement.
- 4.2 **Delivery of Documents**. Debtor shall deliver to Lender promptly upon request any chattel paper, instruments, certificated securities and documents of title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as Lender may direct.
- 4.3 **Investment Property**. Until the occurrence of an Event of Default and subject to the terms of this Agreement, Debtor is entitled to receive interest and regular cash dividends, vote the Investment Property and give entitlement orders, instructions, directions and other consents, waivers and ratifications in respect of the Investment Property, provided that no such action shall be taken which would impair the validity, perfection or priority of the security interests of Lender hereunder or the value of the Investment Property or which would be inconsistent with or violate the provisions of this Agreement, any Financing Agreement, any other written agreement between Lender and Debtor or any Control Agreement.
- 4.4 **Delivery and Control**. Lender may, in its discretion, require Debtor to do all such acts and things that are necessary or desirable for Lender, Lender's agent or a nominee of Lender to receive delivery of the Investment Property or obtain control of the Investment Property, including any consent of Debtor as a registered owner of Investment Property, an entitlement holder or a futures customer, as the case may be, necessary or desirable for such control to be obtained by Lender. Notwithstanding any such transfer, delivery or control, prior to the occurrence of an Event of Default that is continuing, Section 4.3 shall continue to apply and upon such transfer Lender shall provide Debtor with such proxies and other written authorizations as may be requested by Debtor to enable Debtor to exercise the rights and take the actions described in Section 4.3.
- 4.5 **Non-Performance**. Debtor shall promptly notify Lender of any failure of any account debtor, any securities intermediary in respect of a Securities Account or any futures intermediary in respect of a Futures Account in payment or performance of obligations due to Debtor which may affect the Collateral.
- 4.6 **Further Assurances**. At the request of Lender at any time and from time to time Debtor shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary to evidence, perfect, maintain and enforce the security interests hereunder and, subject to Permitted Liens, the priority thereof in the Collateral, and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements to which it is a party. Where permitted by law, Debtor hereby authorizes Lender to execute and file one or more PPSA, UCC and other financing statements or notices signed only by Lender or Lender's representative.

**SECTION 5
EVENTS OF DEFAULT AND REMEDIES**

- 5.1 **Events of Default.** The occurrence or existence of any Event of Default under the Credit Agreement is referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”.
- 5.2 **Remedies.**
- (a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the PPSA, UCC and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Debtor or any Credit Party, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the PPSA, UCC or other applicable law, are cumulative, not exclusive and enforceable, in Lender’s discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Debtor of any of the Financing Agreements to which Debtor is a party. Lender may, at any time or times, proceed directly against Debtor or any Credit Party to collect the Obligations without prior recourse to the Collateral.
 - (b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation:
 - (i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (other than Obligations in connection with Swap Agreements which may be terminated in accordance with their terms);
 - (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of Debtor;
 - (iii) require Debtor, at Debtor’s expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender;
 - (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral;
 - (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose;

- (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Debtor, which right or equity of redemption is hereby expressly waived and released by Debtor to the extent permitted by applicable law;
- (vii) without limiting clause (iv) above, grant a general, special or other license in respect of any aspect of the Collateral on an exclusive or non-exclusive basis to any Person throughout the world or any part of it and on such terms and on such conditions as Lender, acting reasonably, may consider appropriate;
- (viii) enforce against any licensee or other person all rights and remedies of Debtor with respect to all or any part of the Collateral, and take or refrain from taking any action that Debtor might take with respect to any of those rights and remedies, and for this purpose Lender shall have the exclusive right to enforce or refrain from enforcing those rights and remedies, and may in the name of Debtor and at its expense retain and instruct counsel and initiate any court or other proceeding that Lender considers necessary or expedient;
- (ix) take any step necessary to preserve, maintain or insure the whole or any part of the Collateral or to realize upon any of it or put it in vendable condition, and any amount paid as a result of any taking any such steps shall be a cost the payment of which is secured by this Agreement;
- (x) borrow money and use the Collateral directly or indirectly in carrying on Debtor's business or as security for loans or advances for any such purposes;
- (xi) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with Debtor, account debtors of Debtor, sureties and others as Lender may see fit without prejudice to the liability of Debtor or Lender's right to hold and realize the security interest created under this Agreement. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, 5 days prior notice by Lender to Debtor designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Debtor waives any other notice. In the event Lender institutes an action to recover any

Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Debtor waives the posting of any bond which might otherwise be required;

- (xii) terminate this Agreement;
- (xiii) without limiting the generality of clause (vi) above, Debtor acknowledges that when disposing of any Investment Property, Lender may be unable to effect a public sale of any or all of the Investment Property, or to sell any or all of the securities as a control block sale at more than a stated premium to the “market price” of any shares, stock, instruments, warrants, bonds, debenture stock and other securities forming part of the Investment Property, by reason of certain prohibitions contained in the *Securities Act* (Ontario) and applicable laws of other jurisdictions, but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Investment Property as principal and to comply with other resale restrictions provided for in the *Securities Act* (Ontario) and other applicable laws. Debtor acknowledges and agrees that any such private sale may result in prices and other terms less favourable to the seller than if such sale were a public sale or a control block sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by reason of its being a private sale. Lender shall be under no obligation to delay a sale of any of the Investment Property for the period of time necessary to permit the issuer of such securities to qualify such Investment Property for public sale under the *Securities Act* (Ontario) or under applicable securities laws of other jurisdictions, even if the issuer would agree to do so, or to permit a prospective purchaser to make a formal offer to all or substantially all holders of any class of securities forming any part of the Investment Property;
- (xiv) Lender may elect by written notice to Debtor and to an officer of the issuer of the Investment Property or to any securities intermediary or futures intermediary in respect of the Investment Property, as may be applicable, that all or part of the rights of Debtor in the Investment Property including, the right to vote, give consents, entitlement orders, instructions, directions, waivers or ratifications and take other actions and receive interest or regular cash dividends, shall cease, and upon such election all such rights shall become vested in Lender or as it may direct; and
- (xv) require that the Investment Property be registered in the name of Lender or as it may direct, that delivery of the Investment Property be made to Lender or that control of the Investment Property be obtained by Lender, or as it may direct, in accordance with the provisions of the STA and Lender may then, without notice, exercise any and all voting rights at any meeting of the issuers thereof and exercise any and all rights, privileges or

options pertaining to the Investment Property without the consent of Debtor as if it were the absolute owner, including the right to exchange at its discretion, any and all of the Investment Property upon the issuer's amalgamation, merger, consolidation, reorganization, recapitalization, restructuring or other readjustment or upon the issuer's exercise of any right, privilege or option pertaining to any of the Investment Property and to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar, securities intermediary, futures intermediary, clearing agency or other designated agency upon such terms and conditions as it may determine.

- (c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Debtor shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for in the Credit Agreement and all costs and expenses of enforcement including reasonable legal costs and expenses.
- (d) Lender may appoint, remove and reappoint any person or persons, including an employee or agent of Lender to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of Debtor and not of Lender, and Lender shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Lender, all money received by such Receiver shall be received in trust for and paid to Lender. Such Receiver shall have all of the powers and rights of Lender described in this Section 5.2. Lender may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.
- (e) Where Lender realizes upon any of the Collateral, and in particular upon any of the Intellectual Property, Debtor shall provide without charge its know-how and expertise relating to the use and application of the Collateral, and in particular shall instruct Lender, and any purchaser of the Collateral designated by Lender, concerning any Intellectual Property including any confidential information or trade secrets of Debtor.
- (f) Debtor shall pay all costs, charges and expenses incurred by Lender or any Receiver or any nominee whether directly or for services rendered (including reasonable solicitor's costs on a solicitor and his own client basis, auditor's costs, other legal expenses and Receiver remuneration) in enforcing any Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

SECTION 6
JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

6.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

- (a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to principles of conflicts of laws).
- (b) Debtor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under any of the Financing Agreements or in any way connected with or related or incidental to the dealings of Debtor and Lender in respect of any of the Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Debtor or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Debtor or its property).
- (c) To the extent permitted by law, Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed 5 days after the same shall have been so deposited in the Canadian mails, or, at Lender's option, by service upon Debtor in any other manner provided under the rules of any such courts. Within 30 days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Lender against Debtor for the amount of the claim and other relief requested.
- (d) DEBTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER ANY OF THE FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF DEBTOR OR LENDER IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. DEBTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND

THAT DEBTOR OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF DEBTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

- (e) Lender shall not have any liability to Debtor (whether in tort, contract, equity or otherwise) for losses suffered by Debtor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by any Financing Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender that the losses were the result of acts or omissions constituting gross negligence or willful misconduct.
- (f) Debtor hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Lender from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Debtor waives the posting of any bond otherwise required of Lender in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Lender, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction or any Financing Agreement.

6.2 **Waiver of Notices.** Debtor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Debtor which Lender may elect to give shall entitle Debtor to any other or further notice or demand in the same, similar or other circumstances.

6.3 **Amendments and Waivers.** Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of Debtor. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

6.4 **Waiver of Counterclaims.** Debtor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature in any action or proceeding with respect to this

Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

6.5 **Indemnifications.**

- (a) Debtor shall indemnify and hold Lender and its directors, agents, employees and counsel harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel, other than losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them as a result of their own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.
- (b) In addition to, and without limiting the provisions of clause (a) above, Debtor shall indemnify and hold Lender and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to any and all claims that the Intellectual Property infringes, misappropriates, violates or interferes with any rights of a third party including any patent, trade-mark, confidential information, trade secret, copyright, moral rights, personality rights, privacy rights, publicity rights or semi-conductor chip rights, including amounts paid in settlement, court costs, and the fees and expenses of counsel, other than losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them as a result of their own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.
- (c) To the extent that the undertakings to indemnify, pay and hold harmless set forth in this Section 6.5 may be unenforceable because they violate any law or public policy, Debtor shall pay the maximum portion which it is permitted to pay under applicable law to Lender and the other indemnified parties in satisfaction of indemnified matters under this Section.
- (d) The foregoing indemnities shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Credit Agreement.

**SECTION 7
MISCELLANEOUS**

- 7.1 **Notices.** All notices, requests and demands hereunder shall be in writing and delivered (and deemed to have been made if made) in accordance with the notice provisions of the Credit Agreement.
- 7.2 **Judgment Currency.** To the extent permitted by applicable law, the obligations of Debtor in respect of any amount due under this Agreement and other Financing Agreements to which Debtor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) and Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Lender receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Debtor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Debtor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section 7.2, continue in full force and effect.
- 7.3 **Partial Invalidity.** If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
- 7.4 **Successors.** This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon Debtor and its successors and permitted assigns and inure to the benefit of and be enforceable by Lender and its successors and assigns, except that Debtor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein to which it is a party without the prior written consent of Lender. Lender may assign its rights under any or all of the Financing Agreements and/or any other document referred to herein or therein to which it is a party in accordance with the Credit Agreement.
- 7.5 **Entire Agreement.** This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

- 7.6 **Attachment.** The security interest created hereby is intended to attach when this Agreement is executed by Debtor and delivered to Lender.
- 7.7 **Headings.** The division of this Agreement into Sections and the insertion of headings are for convenience only and shall not affect the construction or interpretation of this Agreement.
- 7.8 **Acknowledgement.** Debtor acknowledges receipt of a copy of this Agreement.
- 7.9 **Credit Agreement Paramount.** In the event of any conflict, inconsistency, ambiguity or difference between the provisions of this Agreement and of the Credit Agreement, then the provisions of the Credit Agreement shall govern and be paramount, and any such provision in this Agreement shall be deemed to be amended to the extent necessary to eliminate any such conflict, inconsistency, ambiguity or difference. Notwithstanding the foregoing, if there is any right or remedy of Lender set out in this Agreement or any part thereof that is not set out or provided for in the Credit Agreement, such additional right or remedy shall not constitute a conflict, inconsistency, ambiguity or difference.
- 7.10 **Termination.** This Agreement shall be terminated by written agreement made between Debtor and Lender at any time when all of the Obligations have been fully paid or satisfied and the Credit Agreement terminated.
- 7.11 **Counterparts and Facsimile.** This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement. The delivery of a facsimile or pdf copy of an executed counterpart of this Agreement shall be deemed to be valid execution and delivery of this Agreement, but the party delivering a facsimile or pdf copy shall deliver to the other party an original copy of this Agreement as soon as possible after delivering the facsimile or pdf copy.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Debtor has executed this Agreement as of the date first written above.

KRAUS PROPERTIES INC., on behalf of
itself and in its capacity as the general partner of
KRAUS PROPERTIES INC.

By: 
Name: PATRICIA SALTYS
Authorized Signing Officer

PATENT AND TRADEMARK SECURITY AGREEMENT
KRAUS PROPERTIES LP

THIS PATENT AND TRADEMARK SECURITY AGREEMENT (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, this “**Agreement**”), dated August 6, 2013, is made by **KRAUS PROPERTIES LP** (the “**Debtor**”) to and in favour of **WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, in its capacity as Lender and agent for its Affiliates and assigns under the Credit Agreement (as defined below) (the “**Lender**”).

WHEREAS:

- A.** Lender has entered into certain financing arrangements with Kraus Carpet LP, Kraus Canada LP, Strudex LP, Kraus USA, Inc. and Barrett Carpet Mills, Inc. (collectively, the “**Borrowers**”) and their Affiliates as set out in a credit agreement dated as of the date hereof (as the same may be amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Credit Agreement**”) pursuant to which Lender made loans and provided other financial accommodations to Borrowers; and
- B.** In order to induce Lender to enter into the Credit Agreement and the other Financing Agreements and to make the loans and other financial accommodations under the Credit Agreement, and as a condition precedent thereto, Lender requires that Debtor shall guaranteed the Obligations of the Borrowers owing under the Credit Agreement and the other Financing Agreements and have executed and delivered this Agreement.

NOW THEREFORE in consideration of the extension of credit by the Lender to the Debtor and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Debtor, the Debtor hereby covenants and agrees to and in favour of the Lender as follows:

1. Definitions

Except as otherwise expressly provided herein, capitalized terms used in this Agreement (including in the Recitals hereof) but not defined herein shall have the meanings assigned to such terms in the Credit Agreement. In addition, in this Agreement, unless the context expressly or by necessary implication otherwise required, the following terms shall have the meanings set forth below:

- (a) “**Patents**” means all of the Debtor’s Patents (as defined in the Credit Agreement), including, without limitation, the patents listed on **Exhibit A**.
- (b) “**Security Interest**” shall have the meaning ascribed thereto in Section 2.
- (c) “**Trademarks**” means all of the Debtor’s Trademarks (as defined in the Credit Agreement), including, without limitation, the patents listed on **Exhibit A**.

- 2. Security Interest.** The Debtor hereby irrevocably pledges and assigns to, and grants the Lender a security interest (the “**Security Interest**”) with power of sale to the extent permitted by law, in the Patents and in the Trademarks to secure payment of the Obligations. As set forth in the Credit Agreement, the Security Interest is coupled with a security interest in substantially all of the personal property of the Debtor. This

Agreement grants only the Security Interest herein described, is not intended to and does not affect any present transfer of title of any trademark registration or application and makes no assignment and grants no right to assign or perform any other action with respect to any intent to use trademark application, unless such action is permitted under applicable law. The Debtor authorizes and requests that the Canadian Intellectual Property Office, the United States Patent and Trademark Office or any similar office or agency of any foreign country, and any other applicable governmental body record this Agreement.

3. **Representations, Warranties and Agreements.** The Debtor represents, warrants and agrees as follows:

- (a) **Existence; Authority.** The Debtor is a limited partnership duly formed, validly existing and in good standing under the laws of its jurisdiction of formation, and this Agreement has been duly and validly authorized by all necessary action on the part of the Debtor.
- (b) **Patents. Exhibit A** accurately lists all Patents owned or controlled by the Debtor as of the date hereof, or to which the Debtor has a right as of the date hereof to have assigned to it, and accurately reflects the existence and status of applications and letters patent pertaining to the Patents as of the date hereof. If after the date hereof, the Debtor owns, controls or has a right to have assigned to it any Patents not listed on **Exhibit A**, or if **Exhibit A** ceases to accurately reflect the existence and status of applications and letters patent pertaining to the Patents, then the Debtor shall within 60 days provide written notice to the Lender with a replacement **Exhibit A**, which upon acceptance by the Lender shall become part of this Agreement.
- (c) **Trademarks. Exhibit B** accurately lists all Trademarks owned or controlled by the Debtor as of the date hereof and accurately reflects the existence and status of Trademarks and all applications and registrations pertaining thereto as of the date hereof; provided, however, that **Exhibit B** need not list common law marks (i.e., Trademarks for which there are no applications or registrations) which are not material to the Debtor's or any Affiliate's business(es). If after the date hereof, the Debtor owns or controls any Trademarks not listed on **Exhibit B** (other than common law marks which are not material to the Debtor's or any Affiliate's business(es)), or if **Exhibit B** ceases to accurately reflect the existence and status of applications and registrations pertaining to the Trademarks, then the Debtor shall promptly provide written notice to the Lender with a replacement **Exhibit B**, which upon acceptance by the Lender shall become part of this Agreement.
- (d) **Affiliates.** If after the date hereof any Affiliate owns, controls, or has a right to have assigned to it any Patents or Trademarks, then the Credit Party shall promptly notify the Lender of such item(s) and cause such Affiliate to execute and deliver to the Lender a patent and trademark security agreement substantially in the form of this Agreement.
- (e) **Title.** The Debtor has absolute title to each Patent and each Trademark listed on **Exhibits A and B**, free and clear of all Liens except Permitted Liens. The Debtor

(i) will have, at the time the Debtor acquires any rights in Patents or Trademarks hereafter arising, absolute title to each such Patent or Trademark free and clear of all Liens except Permitted Liens, and (ii) will keep all Patents and Trademarks free and clear of all Liens except Permitted Liens.

(f) **The Lender's Right to Take Action.** If the Debtor fails to perform or observe any of its covenants or agreements set forth in this Section 3, and if such failure continues for a period of ten (10) calendar days after the Lender gives the Debtor written notice thereof (or, in the case of the agreements contained in subsection (h), immediately upon the occurrence of such failure, without notice or lapse of time), or if the Debtor notifies the Lender that it intends to abandon a Patent or Trademark, the Lender may (but need not) perform or observe such covenant or agreement or take steps to prevent such intended abandonment on behalf and in the name, place and stead of the Debtor (or, at the Lender's option, in the Lender's own name) and may (but need not) take any and all other actions which the Lender may reasonably deem necessary to cure or correct such failure or prevent such intended abandonment.

(g) **Costs and Expenses.** Except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, the Debtor shall pay the Lender on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees and disbursements) incurred by the Lender in connection with or as a result of the Lender's taking action under subsection (i) or exercising its rights under Section 5, together with interest thereon from the date expended or incurred by the Lender at the Default Rate.

(h) **Power of Attorney.** To facilitate the Lender's taking action under subsection (i) and exercising its rights under Section 5, the Debtor hereby irrevocably appoints (which appointment is coupled with an interest) the Lender, or its delegate, as the attorney-in-fact of the Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of the Debtor, any and all instruments, documents, applications, financing statements, and other agreements and writings required to be obtained, executed, delivered or endorsed by the Debtor under this Section 3, or, necessary for the Lender, after an Event of Default, which has not been waived in writing by the Lender, to enforce or use the Patents or Trademarks or to grant or issue any exclusive or non-exclusive license under the Patents or Trademarks to any third party, or to sell, assign, transfer, pledge, encumber or otherwise transfer title in or dispose of the Patents or Trademarks to any third party. The Debtor hereby ratifies all that such attorney shall lawfully do or cause to be done by virtue hereof. The power of attorney granted herein shall terminate upon the termination of the Credit Agreement as provided therein and the indefeasible payment in full in cash and performance of all Obligations.

4. **The Debtor's Use of the Patents and Trademarks.** The Debtor shall be permitted to control and manage the Patents and Trademarks, including the right to exclude others from making, using or selling items covered by the Patents and Trademarks and any licenses thereunder, in the same manner and with the same effect as if this Agreement

had not been entered into, so long as no Event of Default occurs, which has not been waived in writing by the Lender.

5. **Remedies.** Upon the occurrence and during the continuance of an Event of Default, the Lender may, at its option, take any or all of the following actions:
 - (a) exercise any or all remedies available under the Credit Agreement and any other Financing Agreements, and all rights and remedies of a secured party provided at applicable law.
 - (b) sell, assign, transfer, pledge, encumber or otherwise dispose of the Patents and Trademarks.
 - (c) enforce the Patents and Trademarks and any licenses thereunder, and if the Lender shall commence any suit for such enforcement, the Debtor shall, at the request of the Lender do any and all lawful acts and execute any and all proper documents required in aid of such enforcement.

6. **Miscellaneous.** This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Lender. A waiver signed by the Lender shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of the Lender's rights or remedies. All rights and remedies of the Lender shall be cumulative and may be exercised singularly or concurrently, at the Lender's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to the Debtor under this Agreement shall be given in the manner and with the effect provided in the Credit Agreement. The Lender shall not be obligated to preserve any rights the Debtor may have against prior parties, to realize on the Patents and Trademarks at all or in any particular manner or order, or to apply any cash proceeds of Patents and Trademarks in any particular order of application. This Agreement shall be binding upon and inure to the benefit of the Debtor and the Lender and its participants, successors and assigns and shall take effect when signed by the Debtor and delivered to the Lender, and the Debtor waives notice of the Lender's acceptance hereof. The Lender may execute this Agreement if appropriate for the purpose of filing, but the failure of the Lender to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

7. **Counterparts and Facsimile.** This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement. The delivery of a facsimile or pdf copy of an executed counterpart of this Agreement


shall be deemed to be valid execution and delivery of this Agreement, but the party delivering a facsimile or pdf copy shall deliver to the other party an original copy of this Agreement as soon as possible after delivering the facsimile or pdf copy.

8. **Governing Law.** This Agreement is to be exclusively construed in accordance with and governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein without giving effect to any choice of law rule or principle that would cause the application of the laws of any jurisdiction other than the internal laws of the Province of Ontario and the federal laws of Canada applicable therein to the rights and duties of the Debtor and the Lender.

[Signature Pages Follows]

IN WITNESS WHEREOF, Debtor has executed this Agreement as of the date first written above.

KRAUS PROPERTIES LP, by its sole general partner, **KRAUS PROPERTIES INC.**

By: 
Name: PATRICIA SALTYS
Authorized Signing Officer

**EXHIBIT A
PATENTS**

CANADIAN PATENTS AND PATENT APPLICATIONS

File Name	App No.	Patent/Reg. No.	Date of Grant	File Date
N/A				

UNITED STATES PATENTS AND PATENT APPLICATIONS

File Name	App No.	Patent/Reg. No.	Date of Grant	File Date
N/A				

**EXHIBIT B
TRADEMARKS**

CANADIAN TRADEMARKS

Trademark	TMA Registration No.	Renewal Date	Application Date	Application Serial No.
Zipperlock	TMA629346	2020-01-05	2005-01-05	1199697
Kraus	TMA686562	2022-04-25	2007-04-25	1219155
Strudon	TMA186095	2017-10-13	1972-10-13	0348345
Softrelle	TMA638055	2020-04-21	2005-04-21	1219156
@work	TMA647821	2020-09-12	2005-09-12	1226337
Omega	TMA219716	2022-03-25	1977-03-25	0398637
Ultra Point	TMA290596	2014-05-04	1984-05-04	0502508
Omni Graph	TMA290598	2014-05-04	1984-05-04	0502510
Omni Point	TMA290597	2014-05-04	1984-05-04	0502509
PERPETUAL PASHMINA	N/A	N/A	Filed February 22, 2013; Formalized February 26, 2013	1,615,365
KRAUS	3049197	January 24, 2016	January 24, 2006	78444033
ZIPPERLOCK	3133792	August 22, 2016	August 22, 2006	78354842

14420438.3

Appendix "F"
Subordination Agreement

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT is dated with effect as of August 6, 2013.

AMONG:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns (the “**Senior Lender**”)

- and -

RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP, and **PINNACLE CAPITAL RESOURCES ULC** (each a “**Subordinated Lender**”, and together the “**Subordinated Lenders**”)

- and each of -

KRAUS HOLDINGS COMPANY ULC,
KRAUS BRANDS INC.,
KRAUS BRANDS LP,
KRAUS CANADA LTD.,
KRAUS CANADA LP,
KRAUS CARPET INC.,
KRAUS CARPET LP,
KRAUS PROPERTIES INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS INC.,
KRAUS SYSTEMS LP,
STRUDEX INC.,
STRUDEX LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
NORTHSTATE CARPET MILLS PTY LTD.
(Australian Company Number 010 558 540)
 (“**Northstate**” and each a “**Debtor**”, and collectively the “**Debtors**”)

RECITALS:

- A.** The Debtors are or will be indebted or liable to the Senior Lender in respect of certain credit facilities established pursuant to the Senior Credit Agreement;
- B.** The Debtors are indebted to one or more of the Subordinated Lenders pursuant to the Subordinated Credit Agreement;

- C. Each Debtor has provided or will provide certain security in favour of the Senior Lender in respect of the Senior Debt;
- D. Each Debtor has provided certain security in favour of one or more of the Subordinated Lenders in respect of the Subordinated Debt; and
- E. The parties have entered into this Agreement to confirm the subordination and postponement of the Subordinated Debt to the Senior Debt and of the Subordinated Security to the Senior Security.

NOW THEREFORE this Agreement witnesses that in consideration of the covenants and agreements herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. **Definitions.** For the purposes of this Agreement, all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Senior Credit Agreement, and the following terms shall have the meanings assigned below unless something in the subject matter or context is inconsistent therewith:

“**Agreement**” means this Subordination Agreement, as it may be amended, modified, restated, supplemented, replaced, extended or renewed from time to time.

“**AUS Real Property**” means any real property owned by Northstate Carpet Mills PTY Ltd.

“**Bankruptcy Code**” means Title 11 of the United States Code entitled, “*Bankruptcy*”, as now or hereafter in effect, or any successor statute.

“**CDN Real Property**” means the real property known as 65 Northfield Drive West, Waterloo, Ontario, as owned by Kraus Brands LP and any other real property owned by any Debtor in Canada hereafter.

“**Creditors**” means, collectively, each of the Senior Lender and the Subordinated Lenders.

“**Debtors**” has the meaning given to such term in the preamble to this Agreement, includes each of the Debtors’ respective successors and assigns. For greater certainty, all uses of the term “**Debtors**” herein shall be read as “**the Debtors, and each of them**”.

“**Event of Default**” means any event of default under the Senior Credit Agreement.

“**Indebtedness**” means the Senior Debt and/or the Subordinated Debt, as the context requires.

“Insolvency Proceeding(s)” shall mean, with respect to any Person, such Person or such Person’s direct or indirect parent company:

- (a) becomes the subject of a bankruptcy or insolvency proceeding (including any proceeding under Title 11 of the Bankruptcy Code), the *Companies’ Creditors Arrangement Act* (Canada), the *Bankruptcy and Insolvency Act* (Canada), the *Winding-up and Restructuring Act* (Canada), any applicable governing corporate statute, or regulatory restrictions;
- (b) has had a receiver, conservator, trustee, administrator, custodian, monitor, liquidator, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it or has called a meeting of its creditors;
- (c) admits in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business; or
- (d) in the good faith determination of Lender, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment of a type described above.

“Limited Remedies” means, as it relates to the Subordinated Debt following the occurrence of the institution of a bankruptcy, insolvency, receivership, administration, winding-up, liquidation or dissolution proceeding by or concerning each of the Debtors:

- (a) the filing of proofs of claim or similar instruments and/or pleadings in respect of the Subordinated Debt; and
- (b) upon the acceleration of the Senior Debt, whether declared or occurring automatically, or the institution of enforcement actions against each of the Debtors or their respective property by the Senior Lender to collect the Senior Debt, the acceleration of the Subordinated Debt;

it being acknowledged and agreed that none of the Limited Remedies shall effect the priorities, postponements and subordinations as between the Senior Lender and Subordinated Lenders set forth herein or entitle the Subordinated Lenders to foreclose upon or enforce any lien, security interest, right or claim in respect of the Subordinated Debt or the Subordinated Security other than as expressly set out herein.

“Person” means an individual, a partnership, a firm, a corporation, an unlimited liability company, a limited liability company, a trust, an unincorporated organization, a joint venture, a syndicate, a government or any department or agency thereof and the heirs, executors, administrators or other legal representatives of an individual; and words importing Persons shall have a similar meaning.

“Northstate Business” means all or substantially all of the business, assets and undertaking of Northstate Carpet Mills PTY Ltd., as owned by the Subordinated Lenders.

“Real Property” means any real property located in North America owned by the Debtors.

“Red Ash” means Red Ash Capital Partners II Limited Partnership and its successors and assigns.

“Senior Credit Agreement” means the Credit and Security Agreement between, *inter alia*, the Senior Lender, each of the Debtors and the other persons party thereto from time to time with effect as of the date hereof as the same may be amended, restated, supplemented, replaced, extended or renewed from time to time.

“Senior Debt” means all debts, liabilities and obligations of each of the Debtors to the Senior Lender and its affiliates, now or hereafter existing, of any and every nature whatsoever, whether direct or indirect, absolute or contingent, matured or unmatured, whether as primary debtor or as surety, including, without limitation, (i) all debts, liabilities and obligations arising pursuant to the Senior Credit Agreement and the Senior Security and (ii) any interest or fees accruing on the Senior Debt after the commencement of any action or proceeding under any bankruptcy, insolvency or other similar law, and any interest or fees that would have accrued but for the commencement of any such proceeding, whether or not any such interest or fees is allowed as an enforceable claim in such proceeding.

“Senior Lender” means Wells Fargo Capital Finance Corporation Canada, as lender and agent for its affiliates and their successors and assigns.

“Senior Security” means, collectively, all security instruments (including, without limitation, all liens, mortgages, charges, pledges and security agreements) securing the Senior Debt, or any part thereof, creating security interests in all or any portion of the property, assets or undertaking of the Debtors (including, without limitation, but subject to the Real Property Release Conditions (as defined in the Senior Credit Agreement), the Real Property), as such security instruments may be amended, modified, restated, supplemented, replaced, extended or renewed from time to time.

“Subordinated Credit Agreement” means any credit or similar agreement among any one or more of the Debtors and the Subordinated Lenders.

“Subordinated Debt” means all debts, liabilities and obligations of the Debtors owing to the Subordinated Lenders now or hereafter existing, of any and every nature whatsoever, whether direct or indirect, absolute or contingent, matured or unmatured, whether as primary debtor or as surety including, without limitation, (i) all debts, liabilities and obligations arising under or pursuant to the Subordinated Security and (ii) any interest or fees accruing on the Subordinated Debt after the commencement of any action or proceeding under any bankruptcy, insolvency or other similar law, and any interest or fees that would have accrued but for the commencement of any such proceeding, whether or not any such interest or fees is allowed as an enforceable claim in such proceeding.

“Subordinated Lender” has the meaning given to such term in the preamble to this Agreement, includes each of the Subordinated Lenders’ respective successors and

assigns. For greater certainty, all uses of the term “**Subordinated Lenders**” herein shall be read as “**the Subordinated Lenders, and each of them**”.

“**Subordinated Security**” means, collectively, all security instruments (including, without limitation, all liens, mortgages, charges, pledges and security agreements) securing the Subordinated Debt, or any part thereof, creating security interests in all of the property, assets or undertaking of each of the Debtors (including, without limitation, the Real Property), as such security instruments may be amended, modified, restated, supplemented, replaced, extended or renewed from time to time.

2. **Consent.** (a) The Subordinated Lenders hereby consent to the incurrence and the existence of the Senior Debt, (b) the Senior Lender hereby consents to the incurrence and existence of the Subordinated Debt, (c) the Subordinated Lenders consent to the creation, execution, delivery and registration, filing and perfection of the Senior Security, and (d) subject to the provisions of this Agreement, the Senior Lender hereby consents to the creation, execution, delivery and registration, filing and perfection of the Subordinated Security.
3. **Subordination and Postponement.** Subject to Section 4 hereof, the Subordinated Lenders hereby expressly, irrevocably and unconditionally postpone and subordinate the right of payment of the Subordinated Debt to the prior payment in full of the Senior Debt notwithstanding the time or order of creation, attachment or perfection, or the date of registration, of security or the date of advances under or in connection with the Subordinated Debt or of any other matter or thing whatsoever. The Subordinated Lenders hereby expressly, irrevocably and unconditionally postpone and subordinate the Subordinated Security to the Senior Security, with the intent that the Senior Security shall have full and absolute priority over the Subordinated Security, and the Subordinated Security shall in all respects and for all purposes be subordinated and postponed and rank junior to the Senior Security.
4. **Restrictions on Payment of the Subordinated Debt.**
 - (a) Subject to the other provisions of this Section 4, unless and until the Senior Debt has been indefeasibly repaid in full and the credit facilities established from time to time by the Senior Lender in favour of the Debtors have been terminated in writing by the Senior Lender, no payment, prepayment or repayment on account of (including by way of offset), or any distribution in respect of, the Subordinated Debt shall be made by the Debtors or received by the Subordinated Lenders.
 - (b) Notwithstanding Subsection (a) above, provided that no Event of Default exists and no Event of Default could or would occur as a result of any payment, the Debtors may make, and the Subordinated Lenders may receive, payments on account of the Subordinated Debt subject to such payment being consented to in writing in advance by the Senior Lender, which consent may not be unreasonably withheld.

- (c) If, not later than (a) thirty days after the delivery of the monthly financial statements of the Debtors to the Senior Lender, or (b) thirty days after the delivery of the audited year-end financial statements of the Debtors to the Senior Lender, the Senior Lender determines, acting reasonably, that a payment was made to the Subordinated Lenders in contravention of the provisions hereof or the Senior Credit Agreement, the Subordinated Lenders agree that it shall pay to the Senior Lender upon written request by the Senior Lender, all payments received by the Subordinated Lenders in contravention hereof, within the previous month after the receipt of the monthly financial statements and within the previous quarter after the receipt of the audited year-end financial statements.
- (d) In the event any payments are made to or received by the Subordinated Lenders in contravention of this Agreement or the Senior Credit Agreement, the Subordinated Lenders shall hold, and shall be deemed to hold, all such payments separate and apart and in trust exclusively for the Senior Lender and shall not commingle such proceeds with any of the funds of the Subordinated Lenders' and shall forthwith pay such payments to the Senior Lender for application against the Senior Debt as the Senior Lender sees fit. Any action taken or thing done by the Subordinated Lenders in contravention of this Agreement shall be null and void and of no force or effect.

5. **Real Property.**

- (a) Notwithstanding any provision of the Subordinated Credit Agreement or the Subordinated Security but at all times subject to the Senior Credit Agreement, the Subordinated Lenders and the Debtors hereby grant to the Senior Lender, its agents, employees and representatives (including, without limitation, any private or court appointed receiver, receiver manager, consultant, monitor, liquidator or other like applicable person) the right and license, without any interference, upon the occurrence of an Event of Default which is continuing (as defined in the Senior Credit Agreement), to enter upon any of the Real Property and the AUS Real Property and use any of the Real Property and the AUS Real Property for the purpose of generally operating the business of the Debtors or in exercising rights and remedies under the Senior Credit Agreement and/or Senior Security (including, without limitation, manufacturing inventory, collecting receivables, and selling and liquidating inventory) for as long as the Senior Lender shall require.
- (b) The Subordinated Lenders covenant and agree with Senior Lender that it will not and is hereby estopped from disputing that:
 - (i) any of the equipment or other personal property assets of the Debtors located at any of the Real Property and the AUS Real Property is and shall remain separate, identifiable, moveable personal property of the Debtors; and

- (ii) any of the equipment or other personal property assets of the Debtors located at any of the Real Property and the AUS Real Property is not and shall not become a fixture to, incorporated into, or form part of, the Real Property and the AUS Real Property and may be removed by the Senior Lender or the Debtors (if permitted pursuant to the Senior Security) at any time.
6. **No Effect on Priority.** The subordination and postponement provided for in this Agreement and all other rights established in, altered by or specified in this Agreement shall be effective, irrespective of:
- (a) the time or order of creation, execution, delivery, attachment or perfection of the Senior Security or the Subordinated Security;
 - (b) the method of perfection of the Senior Security or the Subordinated Security;
 - (c) the time or order of registration or filing of financing statements or other recordings of the Senior Security or the Subordinated Security;
 - (d) the giving of or failure to give notice of the acquisition of any additional Senior Security or the Subordinated Security;
 - (e) the date or dates of any existing or future advance or advances made or other credit accommodation granted or services provided by the Senior Lender to any Debtor or by the Subordinated Lenders to any Debtor;
 - (f) the date or dates of any default by any Debtor in respect of the Senior Debt or the date or dates of any default by any Debtor in respect of the Subordinated Debt, or any default under the Senior Security or the Subordinated Security;
 - (g) the date of crystallization of any floating charge contained in the Senior Security or the Subordinated Security;
 - (h) the date of commencement of enforcement proceedings under the Senior Security or the Subordinated Security; or
 - (i) the priorities otherwise accorded to the Senior Security and the Subordinated Security by any applicable laws or in equity.
7. **Liquidation, Dissolution, Bankruptcy, etc.** Subject at all times to the provisions of the Senior Credit Agreement:
- (a) In the event of distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any Debtor, or the proceeds thereof, to creditors in connection with the bankruptcy, liquidation or winding-up of any Debtor or in connection with any composition with creditors or scheme of arrangement to which any Debtor is a party, the Senior Lender shall be entitled to receive payment in full (including

fees and interest accruing to the date of receipt of such payment at the applicable rate whether or not allowed as a claim in any such proceeding) of the Senior Debt before the Subordinated Lenders are entitled to receive any direct or indirect payment or distribution of any cash or other assets of the Debtors on account of the Subordinated Debt, and the Senior Lender shall be entitled to receive directly, for application in payment of such Senior Debt (to the extent necessary to pay all Senior Debt in full after giving effect to any payment or distribution to the Senior Lender in respect of the Senior Debt), any payment or distribution of any kind or character, whether in cash or other assets, which shall be payable or deliverable upon or with respect to the Subordinated Debt. To the extent any payment of Senior Debt (whether by or on behalf of any Debtor, as proceeds of security or enforcement of any right of set-off or otherwise) is declared to be a fraudulent preference or otherwise preferential, set aside or required to be paid to a trustee, receiver or other similar person under any bankruptcy, insolvency, receivership or similar law, then if such payment is recoverable by, or paid over to, such trustee, receiver or other person, the Senior Debt or part thereof originally intended to be satisfied shall be deemed to be reinstated and outstanding as if such payment had not occurred.

- (b) In order to enable the Senior Lender to enforce its rights hereunder in any of the actions or proceedings described in Subsection 7, upon the failure of the Subordinated Lenders to make and present on a timely basis a proof of claim against the Debtors on account of the Subordinated Debt or other motion or pleading as may be expedient or proper to establish the entitlement of the Subordinated Lenders to payment of any Subordinated Debt, the Senior Lender is hereby irrevocably authorized and empowered, in its sole discretion and at the sole expense of the Subordinated Lenders, to make and present for and on behalf of the Subordinated Lenders such proofs of claims or other motions or pleadings and to demand, receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid or issued and to apply the same on account of the Senior Debt. The Subordinated Lenders hereby covenant and agree not to exercise any voting right or other privilege that they may have from time to time in any of the actions or proceedings described in this Section 7 in favour of any plan, proposal, compromise, arrangement or similar transaction that would place the Subordinated Creditor in a separate class from the Senior Lender, or that is not supported by the Senior Lender or would defeat; (i) the right of the Senior Lender to receive payments and distributions otherwise payable or deliverable upon or with respect to the Subordinated Debt so long as any Senior Debt remains outstanding; or (ii) the obligation of the Subordinated Lenders to receive, hold in trust, and pay over the Senior Lender certain payments and distributions as contemplated by this Section 7.

8. **Enforcement Standbys.**

- (a) Other than as permitted in accordance with the provisions of the Senior Credit Agreement, the Subordinated Lenders agree that they shall not take any steps whatsoever to enforce payment of the Subordinated Debt or to enforce the

Subordinated Security and/or any security against the AUS Real Property (including, without limitation, asserting any rights of set-off, commencement of bankruptcy proceedings, initiating an action, appointing or making application to a court for an order appointing an agent or a receiver or receiver manager or by any other means of enforcement whatsoever) unless and until the Senior Debt has been indefeasibly paid in full and the agreement evidencing the Senior Debt has been terminated by the Senior Lender in writing. Nothing in this Section 8 shall preclude the Subordinated Lenders from filing a proof of claim in connection with any bankruptcy or similar proceedings of the Debtors or exercising any other Limited Remedy.

- (b) The Subordinated Lenders hereby waive all rights to claim or otherwise interpose any claims, deductions, setoffs or counterclaims of any nature or kind, whether contractual, legal or equitable, including without limitation, any and all amounts and obligations of whatsoever nature and kind owing by the Debtors to the Subordinated Lenders against or in connection with the Subordinated Debt and any action or proceeding with respect to this Agreement or any matter arising therefor or relating hereto.

- 9. **Payments Received by the Subordinated Lenders.** Except as permitted hereunder or in the Senior Credit Agreement, if, prior to the payment in full of the Senior Debt, the Subordinated Lenders or any Person on their behalf shall receive any payment from (including by way of offset or proceeds of realization or insurance proceeds), or distribution of assets of the Debtors or on account of the Subordinated Debt, then the Subordinated Lenders shall, and shall cause such other Person to, and shall be deemed to, receive and hold such payment or distribution segregated and apart in trust exclusively for the benefit of the Senior Lender and promptly pay the same over or deliver to the Senior Lender in precisely the form received by the Subordinated Lenders or such other Person on their behalf (except for any necessary endorsement or assignment) and such payment or distribution may be applied by the Senior Lender to the repayment of the Senior Debt as it sees fit.

- 10. **Other Covenants.** Notwithstanding any other provision of this Agreement:

- (a) other than as permitted hereunder or in the Senior Credit Agreement, the Subordinated Lenders will not assign or transfer the Subordinated Debt in whole or in part or the Subordinated Security or any security against the AUS Real Property, the CDN Property, any Real Property or the Northstate Business, in whole or in part, to any Person unless the Senior Lender consents in writing to such assignment or transfer which consent may be withheld by the Senior Lender in its sole and absolute discretion and unless such Person enters into a written agreement with the Senior Lender pursuant to which the proposed assignee agrees to be bound by the terms of this Agreement in effect as of the date of such assignment, and an executed copy of such written agreement is delivered to the Senior Lender;

- (b) the Subordinated Lenders will not contest the validity or priority of the Senior Security and the Senior Lender will not contest the validity or priority of the Subordinated Security.

11. **Proceeds of Realization.** Notwithstanding any provision to the contrary, all payments, proceeds and amounts received by any of the Creditors from the Debtors after one of the Creditors has made a demand for repayment of its indebtedness (following the occurrence and during the continuance of a default or Event of Default, but specifically excluding any proceeds derived from the AUS Real Property), whether as a result of realization from enforcement of the Subordinated Security or the Senior Security or in connection with any action or proceeding described in Subsection 7 shall be applied and distributed as follows:

- (a) firstly, on account of the costs and expenses of the sale, collection and realization of the Senior Security including the reasonable costs and expenses incurred by the Senior Lender and other agents of the Senior Lender or any receiver or receiver and manager appointed by the Senior Lender, and including the legal fees and disbursements incurred by the Senior Lender or any receiver or receiver and manager appointed by it;
- (b) secondly, on account of the principal, interest and all other amounts due to the Senior Lender and its affiliates as the Senior Lender sees fit to the extent of the repayment in full of the Senior Debt;
- (c) thirdly, on account of the costs and expenses of the sale, collection and realization of the Subordinated Security, if any, including the reasonable costs and expenses incurred by agents of the Subordinated Lenders or any receiver or receiver manager appointed by the Subordinated Lenders, and including the reasonable legal fees and disbursements incurred by the Subordinated Lenders or any receiver or receiver manager appointed by them;
- (d) fourthly, on account of the principal, interest and other amounts due to the Subordinated Lenders to the extent of the repayment in full of the Subordinated Debt;
- (e) fifthly, as required by applicable law; and
- (f) lastly, to the Debtors.

12. **No Waiver of Subordination.** No right of the Senior Lender to enforce the subordination as provided in this Agreement shall at any time and in any way be prejudiced or impaired by any act or failure to act on the part of the Debtors, or by any act or failure to act by the Senior Lender or any other agent of or trustee for the Senior Lender, or by any non-compliance by the Debtors with any of the agreements or instruments relating to the Senior Debt or the Subordinated Debt, regardless of any knowledge thereof which the Senior Lender may have or otherwise be charged with. Without limiting the generality of the foregoing but in no way relieving the Subordinated Lenders of their obligations under this Agreement, the Senior Lender may at any time

and from time to time, without the consent of the Subordinated Lenders and to the exclusion of the Subordinated Lenders and without impairing or releasing the subordination and other benefits provided in this Agreement or the obligations hereunder of the Subordinated Lenders to the Senior Lender, but subject to the terms of the Senior Credit Agreement, do any one or more of the following:

- (a) amend, revise, restate, supplement or replace in any manner any agreement, document or instrument relating to the Senior Debt;
- (b) sell, exchange, release, surrender, realize upon, enforce or otherwise deal with in any manner any assets pledged or mortgaged or otherwise securing the Senior Debt or any liability of the Debtors or any guarantor of the Senior Debt, or any liability incurred directly or indirectly in respect thereof;
- (c) settle or compromise any Senior Debt or any other liability of the Debtors (other than the Subordinated Debt) or of any guarantor of the Senior Debt, or any security therefor or any liability incurred directly or indirectly in respect thereof, and apply any sums by whomsoever paid and howsoever realized to the Senior Debt in any manner or order; and
- (d) fail to take or to record or otherwise perfect or to preserve the perfection of any lien or security interest securing the Senior Debt including, without limitation, the Senior Security, exercise or delay in or refrain from exercising any right or remedy against the Debtors or any guarantor of the Senior Debt or any security or any other Person, and elect any remedy and otherwise deal freely with the Debtors and any guarantor of the Senior Debt and with any security.

In the event that the Debtors' assets subject to the Senior Security are sold by the Senior Lender or for the benefit of the Senior Lender and the net cash proceeds thereof are applied to the Senior Debt, such assets shall be sold free of any rights held by the Subordinated Lenders under the Subordinated Security. Upon the Senior Lender's request, the Subordinated Lenders shall so confirm to any prospective buyer of such assets and shall grant a discharge of its rights under the Subordinated Security on such assets at the time of the sale. If the Subordinate Lender fails, within five (5) days after receipt of such request, to execute and deliver such instruments as may be reasonably necessary to terminate and release any Lien the Subordinated Lenders have in the assets sold or to be sold or otherwise disposed of, the Senior Lenders are authorized to file or cause its agents to file releases and discharges with respect to such assets that have been or are to be sold.

No loss of or in respect of the Senior Security or otherwise or any carelessness or neglect by the Senior Lender in asserting its rights or in any other thing whatsoever, including without limitation, the loss by operation of law of any right of the Senior Lender against the Debtors or the loss or destruction of any security shall in any way impair or release the subordination and other benefits provided to the Senior Lender under this Agreement.

The Subordinated Lenders hereby agree that all payments received by the Senior Lender may be applied, in whole or in part, to any of the Senior Debt as the Senior Lender in its sole discretion deem appropriate.

13. **Reliance.** All of the Senior Debt shall be deemed to have been made available to Debtors or incurred by Debtors and continued in favour of Debtor in reliance upon this Agreement. The Subordinated Lenders agree that the Senior Lender has made no representations or warranties with respect to the due execution, legality, validity, completeness or enforceability of any agreement or instrument relating to the Senior Debt, the Senior Security or the collectability of the Senior Debt. Except as provided hereunder, the Senior Lender shall be entitled to manage and supervise its loans and other financial accommodation to the Debtors in accordance with applicable law and their usual practices (modified from time to time as they deem appropriate under the circumstances) or otherwise, without regard to the existence of any rights that the Subordinated Lenders may now or hereafter have in or to any of the assets of the Debtors and the Senior Lender shall have no liability to the Subordinated Lenders for, and the Subordinated Lenders hereby waive, any claims which the Subordinated Lenders may now or hereafter have against the Senior Lender in respect of any and all actions which the Senior Lender takes or omits to take, in accordance with applicable law (including, without limitation, actions with respect to the creation, perfection or continuation of liens or security interests in any property, assets or undertaking at any time securing payment of the Senior Debt, actions with respect to the occurrence of any default under any agreement or instrument relating to the Senior Debt, actions with respect to the release or depreciation of, or failure to realize upon, any property, assets or undertaking securing payment of the Senior Debt and actions with respect to the collection of any claims for all or any part of the Senior Debt from any account debtor, guarantor or any other person) with respect to the Senior Debt and any agreement or instrument related thereto, or with respect to the collection of the Senior Debt or the valuation, use, protection or release of any property, assets or undertaking securing payment of the Senior Debt.
14. **Appointment of Receiver.** Any Senior Lender or receiver or receiver and manager or Persons with similar authority with respect to all or any part of the undertaking, property and assets of the Debtors (each hereinafter referred to as a “**Bank Receiver**”) appointed by, or on behalf of, or upon the application of, the Senior Lender shall be entitled to the exclusive custody and control of such undertaking, property and assets and to dispose of the same in accordance with the relevant security held by or on behalf of the Senior Lender, the whole as provided hereunder.
15. **Payment of Senior Debt.** For purposes of this Agreement, the Senior Debt shall be considered to be paid in full when the aggregate of the cash payments and the fair market value of non-cash payments, as determined by the Senior Lender in its reasonable credit discretion, received by the Senior Lender are equal to the Senior Debt notwithstanding that any applicable limitation period for a claim for fraudulent preference or similar claim has not expired; provided, however, that if at the time of proposed payment or distribution to any of the Subordinated Lenders, any trustee, receiver or other third party has made a claim of fraudulent preference or any other similar claim, the Senior Lender may require that an amount equal to such claim, together with the Senior Lender’s

anticipated reasonable costs and expenses relating thereto, be held back from such distribution or payment to the Subordinated Lenders. If payment or other transaction relating to this Agreement, the Senior Debt or the subordination is void, voidable, unenforceable or defective for any reason or a related claim is upheld, conceded or settled (each an “**Avoidance**”), then even though any party knew or should have known of the Avoidance:

- (a) the liability of the parties under this document and each Creditor’s powers will be what it would have been, and will continue, as if the payment or transaction had not occurred; and
- (b) each Debtor and the Subordinated Lenders will immediately execute and do anything required by the Senior Lender to confirm the parties are restored to the position they were in immediately before the Avoidance (including reinstating this document), but failure or refusal of any party to execute such documents shall not affect the automatic reinstatement of the parties provided herein.

This clause survives any termination or full or partial discharge or release of the Senior Credit Agreement and the Senior Security.

16. **Insolvency Proceedings.**

- (a) This Agreement shall be applicable both before and after the commencement of any Insolvency Proceeding and all converted or succeeding cases in respect thereof. The relative rights of claimholders in or to any distributions from or in respect of any Collateral or proceeds of Collateral, shall continue after the commencement and during the continuance of any Insolvency Proceeding. Accordingly, the provisions of this Agreement are intended to be and shall be enforceable as a subordination agreement within the meaning of Section 510 of the Bankruptcy Code.
- (b) If any Debtor shall be subject to any Insolvency Proceeding and if Senior Lender consents to the use of cash collateral (as such term is defined in Section 363(a) of the Bankruptcy Code, herein, “**Cash Collateral**”), on which it has a Lien or consents to such Debtor obtaining financing provided under Section 364 of the Bankruptcy Code or any similar provision of any other Applicable Law relating to Insolvency Proceedings (such financing, a “**DIP Financing**”), the Subordinated Lenders unconditionally agree that it will consent to such Cash Collateral use or raise no objection to such DIP Financing, as applicable, and, if DIP Financing is involved, the Subordinated Lenders will subordinate its Liens in the Collateral (and in any other assets of the Debtors that may serve as collateral (including avoidance actions, or the proceeds thereof) for such DIP Financing) to the Liens securing such DIP Financing. The Subordinated Lenders agree that they shall not directly or indirectly, provide, offer to provide, or support any DIP Financing secured by a Lien senior to or *pari passu* with the Liens securing the Senior Debt. If, in connection with any Cash Collateral use or DIP Financing, any Liens on the Collateral held by the Senior Lender to secure the Senior Debt are subject to a

surcharge or are subordinated to an administrative priority claim, a professional fee “*carve-out*,” or fees owed to any United States Trustee or similar Person under any Insolvency Proceeding, then the Liens on the Collateral of the Subordinated Lenders securing the Subordinated Debt shall also be subordinated to such interest or claim and shall remain subordinated to the Liens on the Collateral of the Senior Lender consistent with this Agreement.

- (c) The Subordinated Lenders agree that they will consent to, and will not object or oppose a motion to dispose of any Collateral free and clear of the Liens of the Subordinated Lenders under Section 363 or Section 1129 of the Bankruptcy Code if the Senior Lender has consented to the sale of such Collateral free and clear of its Liens.
- (d) Until the indefeasible payment in full of the Senior Debt, Subordinated Lenders agree not to seek (or support any other person seeking) relief from the automatic stay or any other stay in any Insolvency Proceeding in respect of the Collateral, without the prior written consent of Senior Lender.
- (e) (i) In any Insolvency Proceeding involving any Debtor:
 - (1) Subordinated Lenders agree that they shall not object to or contest, or support any other person objecting or contesting (and instead shall be deemed to have hereby irrevocably, absolutely, and unconditionally waived any right to do so):
 - (A) any request by any Senior Lender prior to the payment in full of Senior Debt for adequate protection of their interest in the Collateral, including replacement or additional Liens on post-petition assets; or
 - (B) any (x) objection by Senior Lender to any motion, relief, action, or proceeding based on Senior Lender claiming a lack of adequate protection, or (y) request by Senior Lender for relief from the automatic stay;
 - (2) if Senior Lender is granted adequate protection in the form of an additional or replacement Lien (on existing or future assets of Grantors) in connection with any DIP Financing or use of Cash Collateral, then Senior Lender agrees that Subordinated Lenders shall also be entitled to seek, without objection from Senior Lender, adequate protection in the form of an additional or replacement Lien (on such existing or future assets of Debtors), which additional or replacement Lien, if obtained, shall be subordinate to the Liens securing the Senior Debt (including those under a DIP Financing) on the same basis as the other Liens securing the Subordinated Debt are subordinate to the Senior Debt under this Agreement;

- (3) no Subordinated Lender(s) may seek adequate protection except for adequate protection permitted pursuant to this Subsection 16(e) or adequate protection in the form of an additional or replacement Lien in and to existing or future assets of Debtors, and Subordinated Lenders further agree that Senior Lender shall also be entitled to seek, without objection from the Subordinated Lenders, a senior adequate protection Lien in and to such existing or future assets of Debtors as security for the Senior Debt and that any adequate protection Lien securing the Subordinated Debt shall be subordinated to such senior adequate protection Lien securing Senior Debt on the same basis as the other Liens securing the Subordinated Debt are subordinated to the Liens securing the Senior Debt under this Agreement;
 - (4) if Senior Lender is granted adequate protection in the form of a superpriority or other administrative expense claim in connection with any DIP Financing or use of Cash Collateral, then Senior Lender agrees that Subordinated Lenders shall also be entitled to seek, without objection from Senior Lender, adequate protection in the form of a superpriority or other administrative expense claim (as applicable), which superpriority or other administrative expense claim, if obtained, shall be subordinate to the superpriority or other administrative expense claim of the Senior Lender (such subordination to include an express provision that the Subordinated Lenders will not object to (and will consent to) a plan of reorganization that is accepted by the requisite affirmative vote of all classes composed of the secured claims of Senior Lender based upon the failure of such plan of reorganization to pay the Subordinated Lenders' superpriority or other administrative expense claims in full in accordance with Section 1129(a)(9)(A) of the Bankruptcy Code);
 - (5) if any one or more Subordinated Lenders are granted adequate protection in the form of a superpriority or other administrative expense claim in connection with any DIP Financing or use of Cash Collateral, then Subordinated Lenders agree that Senior Lender shall also be entitled to seek, without objection from Subordinated Lenders, adequate protection in the form of a superpriority or other administrative expense claim (as applicable), which superpriority or other administrative expense claim, if obtained, shall be senior to the superpriority or other administrative expense claim of the Subordinated Lenders; and
- (ii) no Subordinated Lender shall object to, oppose, or challenge the determination of the extent of any Liens held by the Senior Lender or the value of any claims of Senior Lender under Section 506(a) of the Bankruptcy Code or any claim by Senior Lender for allowance in any

Insolvency Proceeding of Senior Debt consisting of post-petition interest, fees, or expenses.

- (iii) Senior Lender shall not object to, oppose, or challenge the determination of the extent of any Liens held by any of the Subordinated Lenders or the value of any claims of Subordinated Lenders under Section 506(a) of the Bankruptcy Code or any claim by any Subordinated Lenders for allowance in any Insolvency Proceeding of Subordinated Debt consisting of post-petition interest, fees, or expenses.
- (f) Subordinated Lenders shall not object to, oppose, support any objection, or take any other action to impede, the right of Senior Lender to make an election under Section 1111(b)(2) of the Bankruptcy Code. The Subordinated Lenders waive any claim they may hereafter have against Senior Lender arising out of the election by Senior Lender of the application of Section 1111(b)(2) of the Bankruptcy Code. Subordinated Lenders agree that they will not, directly or indirectly, assert or support the assertion of, and hereby waive any right that they may to assert or support the assertion of any claim under Section 506(c) or the “*equities of the case*” exception of Section 552(b) of the Bankruptcy Code as against Senior Lender or any of the Collateral to the extent securing the Senior Debt.
- (g) Subject to the provisions hereof, nothing contained herein shall prohibit or in any way limit Senior Lender from objecting in any Insolvency Proceeding involving a Debtor to any action taken by any Subordinated Lender, including the seeking by any Subordinated Lender of adequate protection or the assertion by any Subordinated Lender of any of its rights and remedies under the Subordinated Credit Agreement or the Subordinated Security.
- (h) If Senior Lender is required in any Insolvency Proceeding or otherwise to turn over, disgorge, or otherwise pay to the estate of any Debtor any amount paid in respect of Senior Debt (or if Senior Lender elects to do so upon the advice of counsel) (a “**Recovery**”), then Senior Lender shall be entitled to a reinstatement of the Senior Debt with respect to all such amounts, and all rights, interests, priorities, and privileges recognized in this Agreement shall apply with respect to any such Recovery. If this Agreement shall have been terminated prior to such Recovery, this Agreement shall be reinstated in full force and effect, and such prior termination shall not diminish, release, discharge, impair, or otherwise affect the obligations of the parties hereto from such date of reinstatement and, to the extent the Senior Debt was decreased in connection with any payment of the Senior Debt, the Senior Debt shall be increased to such extent.

17. **No Rights to the Debtors.** Nothing in this Agreement shall be construed so as to:

- (a) entitle any Person that is not a signatory to this Agreement to receive any proceeds of realization of any of the assets of the Debtors;

- (b) confer any rights upon the Debtors or any Person not a party to this Agreement and the covenants and agreements of the Creditors contained herein shall only be enforceable as between the Creditors and shall not be enforceable by the Debtors; or
- (c) require or obligate any Creditor to: (i) advance any monies or otherwise extend credit to the Debtors at any time, or (ii) enforce or realize upon the property, assets or undertaking of the Debtors.

If any Person (other than the Creditors) shall have any valid claim to proceeds of realization of the property, assets or undertaking of the Debtors in priority to or on parity with any of the Creditors, then this Agreement shall not apply so as to diminish the rights (as such rights would have been but for this Agreement) of the Creditors to the proceeds of realization of such property, assets or undertaking.

- 18. **Exchange of Information.** The Creditors may at any time and from time to time exchange information concerning the affairs of the Debtors each with the other, and the Debtors expressly consent to such exchange of information provided each of the Creditors maintains all information so provided in confidence.
- 19. **Further Assurances.** The parties hereto agree that they shall at all times do, execute, acknowledge and deliver all such acts, deeds and agreements as may be reasonably necessary or desirable to give effect to the terms and provisions of this Agreement including any and all acts, deeds or agreements as may be necessary for the purpose of registering or filing notice of the terms and provisions of this Agreement including, without limitation, the delivery by the Subordinated Lenders to the Senior Lender of all original share certificates and documents of title in their possession.
- 20. **Notice.** All notices provided for in this Agreement shall be in writing and shall be personally delivered or sent by facsimile to the officer or other responsible employee of the addressee, at or to the applicable addresses or facsimile numbers, as the case may be, set opposite the party's name below, or at or to such other address or addresses or facsimile number of numbers as any party hereto may from time to time designate to the other parties in such manner:

to the Senior Lender:

Wells Fargo Capital Finance Corporation Canada
40 King Street West, Suite 2500
Toronto, Ontario, M5H 3Y2
Canada

Attention: Portfolio Manager
Facsimile: 416-775-2990

to the Subordinated Lenders:

Red Ash Capital Partners II Limited Partnership
80 New Bond Street
London, W1S 1SB
England

Attention: Matthew Holt
Fax: + 44 (0) 20 7317 2051

to the Debtors:

c/o Kraus Canada LP
65 Northfield Drive West
Waterloo, Ontario, N2J 4J4
Canada

Attention: Trish Saltys
Fax: 519-884-0170

Any communication which is personally delivered as aforesaid shall be deemed to have been validly and effectively given on the date of such delivery if such date is a Business Day (as defined in the Senior Credit Agreement) and such delivery was made during normal business hours of the recipient; otherwise, it shall be deemed to have been validly and effectively given on the Business Day next following such date of delivery. Any communication which is transmitted by facsimile as aforesaid shall be deemed to have been validly and effectively given on the date of transmission if such date is a business day and such transmission was made during normal business hours of the recipient; otherwise, it shall be deemed to have been validly and effectively given on the Business Day next following such date of transmission.

21. **Entire Agreement.** This Agreement constitutes the entire agreement among the parties hereto in respect of its subject matter and supersedes any prior agreements, undertakings, declarations, or representations, written or oral, in respect thereof.
22. **Severability.** If any of the provisions of this Agreement shall be held invalid or unenforceable by any court having jurisdiction, this Agreement shall be construed as if not containing those provisions and the rights and obligations of the parties hereto should be construed and enforced accordingly.
23. **Successors and Assigns; Assignment.** All of the terms, conditions, covenants and provisions of this Agreement shall be binding upon the parties hereto and their respective permitted participants, successors and permitted assigns and shall enure to the benefit of the parties hereto and their respective permitted participants, successors and permitted assigns.
24. **Governing Law.** This Agreement shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with

the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario. Time shall be in all respects of the essence herein.

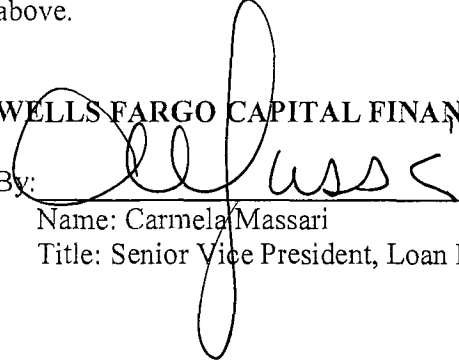
25. **Counterparts and Execution.** This Agreement may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement. If an attorney executes this Agreement on behalf of Northstate, such attorney declare that the attorney has no notice of revocation, termination or suspension of the power of attorney under which the attorney executes this Agreement.
26. **Acknowledgment of Receipt.** The Debtor acknowledges receipt of an executed copy of this Agreement and agrees to the terms thereof.
27. **Paramountcy of Subordination Agreement.** It is acknowledged and agreed by the parties hereto that the terms of this Agreement shall govern the Subordinated Credit Agreement and the Subordinated Security as if recited in all respects therein, and that in the event of any conflict between the terms of this Agreement and those of any of the Subordinated Credit Agreement and the Subordinated Security, the terms of this Agreement shall in every respect govern.
28. **Cumulative Rights.** The rights, powers and remedies of the Senior Lender under this Agreement shall be in addition to all rights, powers and remedies given to the Senior Lender by virtue of any statute or rule of law or in equity, any agreement or instrument relating to the Senior Debt or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently.
29. **No Consent of the Debtors.** No consent of the Debtors shall be necessary for any amendment to this Agreement by the Senior Lender and the Subordinated Lenders unless the interests of the Debtors are directly and adversely affected thereby.

[3 SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date written above.

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA

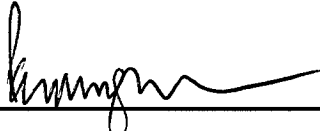
By:


Name: Carmela Massari

Title: Senior Vice President, Loan Portfolio Manager

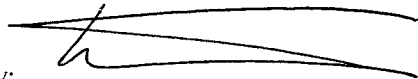
PINNACLE CAPITAL RESOURCES

ULC, on behalf of itself and in its capacity as
the general partner of **RED ASH CAPITAL
PARTNERS II LIMITED PARTNERSHIP KRAUS HOLDINGS COMPANY ULC**

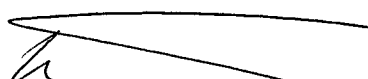
By: 
Name: PAUL MCGOWAN
Authorized Signing Officer

By: 
Name: Mark A. Smiley
Authorized Signing Officer

KRAUS BRANDS INC. on behalf of itself
and in its capacity as the sole general partner
of **KRAUS BRANDS LP**

By: 
Name: C. EMMOTT
Authorized Signing Officer

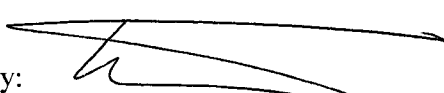
KRAUS CANADA LTD. on behalf of itself
and in its capacity as the sole general partner
of **KRAUS CANADA LP**

By: 
Name: C. EMMOTT
Authorized Signing Officer

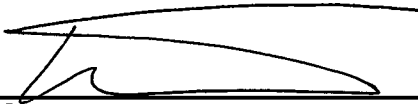
KRAUS CARPET INC. on behalf of itself
and in its capacity as the sole general partner
of **KRAUS CARPET LP**

By: 
Name: C. EMMOTT
Authorized Signing Officer


KRAUS PROPERTIES INC. on behalf of
itself and in its capacity as the sole general
partner of **KRAUS PROPERTIES LP**

By: 
Name: C. EMMOTT
Authorized Signing Officer

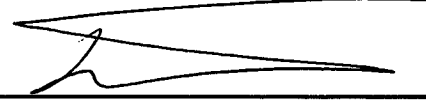
KRAUS SYSTEMS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS SYSTEMS LP**

By: 
Name: C. Emmott
Authorized Signing Officer

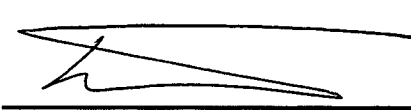
STRUDEX INC. on behalf of itself and in its capacity as the sole general partner of **STRUDEX LP**

By: 
Name: C. Emmott
Authorized Signing Officer

KRAUS USA, INC.

By: 
Name: C. Emmott
Authorized Signing Officer


BARRETT CARPET MILLS, INC.

By: 
Name: C. Emmott
Authorized Signing Officer

Executed by **NORTHSTATE CARPET MILLS PTY LTD.** CAN 010 558 540 in accordance with section 127 of the *Corporations Act* (2001):

Director/Company Secretary

Name of Director/Company Secretary
(BLOCK LETTERS)



Director

C. Emmott

Name of Director
(BLOCK LETTERS)

KRAUS SYSTEMS INC. on behalf of itself
and in its capacity as the sole general partner
of **KRAUS SYSTEMS LP**

STRUDEX INC. on behalf of itself and in
its capacity as the sole general partner of
STRUDEX LP

By: _____
Name:
Authorized Signing Officer

By: _____
Name:
Authorized Signing Officer

KRAUS USA, INC.

BARRETT CARPET MILLS, INC.

By: _____
Name:
Authorized Signing Officer

By: _____
Name:
Authorized Signing Officer

Executed by **NORTHSTATE CARPET
MILLS PTY LTD.** CAN 010 558 540 in
accordance with section 127 of the
Corporations Act (2001):

Director/Company Secretary

Name of Director/Company Secretary
(BLOCK LETTERS)



Director

NEIL CLIVE UERLAN

Name of Director
(BLOCK LETTERS)

FIRST AMENDMENT TO SUBORDINATION AGREEMENT

THIS FIRST AMENDMENT TO SUBORDINATION AGREEMENT (this “**Amendment**”) is made as of this 25th day of July, 2014,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

(the “**Senior Lender**”)

- and -

RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP, and **PINNACLE CAPITAL RESOURCES LIMITED** (formerly **Pinnacle Capital Resources ULC**)

(each a “**Subordinated Lender**”, and together the “**Subordinated Lenders**”)

- and each of -

KRAUS HOLDINGS COMPANY ULC,
KRAUS BRANDS INC.,
KRAUS BRANDS LP,
KRAUS CANADA LTD.,
KRAUS CANADA LP,
KRAUS CARPET INC.,
KRAUS CARPET LP,
KRAUS PROPERTIES INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS INC.,
KRAUS SYSTEMS LP,
STRUDEX INC.,
STRUDEX LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
NORTHSTATE CARPET MILLS PTY LTD.
(Australian Company Number 010 558 540)
(each a “**Debtor**”, and collectively the “**Debtors**”)

RECITALS:

- A. The Senior Lender, the Subordinated Lenders and the Debtors entered into a Subordination Agreement, dated as of August 6, 2013 (as may be further amended, restated supplemented or replaced, from time to time, the “**Subordination Agreement**”);
- B. The Debtors have requested that the Lender consent, subject to the terms and conditions set out herein, to the Subordinated Lenders providing Kraus Canada LP, Strudex LP,

Kraus Carpet LP, Kraus USA Inc. and Barrett Carpet Mills Inc. (collectively, the “**Revolving Borrowers**”) with the Subordinated Revolving Facility (as defined below), on and subject to the terms and conditions of the Subordinated Revolving Facility Documents (as defined below); and

- C. The Subordinated Revolving Facility and the Subordinated Revolving Facility Documents (as defined below) require amending certain of the terms and conditions of the Subordination Agreement.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Subordination Agreement.
2. **Consent.** Subject to the terms and conditions contained in this Amendment, the Lender hereby consents to the Subordinated Lenders providing the Subordinated Revolving Facility (as defined below) to the Revolving Borrowers.
3. **Amendments to Subordination Agreement.** The Subordination Agreement is hereby amended as follows:

- (a) Section 1 of the Subordination Agreement is amended by adding the following definitions, in the applicable alphabetical order:

“**Excess Availability**” has the meaning given to such term in the Senior Credit Agreement.”

“**Revolving Borrowers**” means, collectively, Kraus Canada LP, Strudex LP, Kraus Carpet LP, Kraus USA Inc. and Barrett Carpet Mills Inc.

“**Subordinated Revolving Facility**” means the revolving credit facility, in the maximum principal amount of Cdn.\$10,000,000, made available to the Revolving Borrowers by the Subordinated Lenders pursuant to the terms of the Subordinated Revolving Facility Documents. For greater certainty, it is acknowledged and agreed that the Subordinated Revolving Facility may, subject to the provisions of this Agreement, be repaid and re-borrowed.”

“**Subordinated Revolving Facility Documents**” means the term sheet dated as of July 25, 2014 made among the Revolving Borrowers and the Subordinated Lenders, the subordinated promissory note dated July 25, 2014 issued by the Revolving Borrowers in favour of the Subordinated Lenders, and all agreements, instruments or documents executed in connection therewith.”

“**Subordinated Revolving Facility Repayment**” means any payment on account of the principal amount of the Subordinated Revolving Facility

outstanding from time to time, and any interest thereon at the rate in effect in the Subordinated Revolving Facility Documents as of July 25, 2014.

“**Subordinated Revolving Facility Repayment Conditions**” means, collectively, all of the following: (a) Excess Availability is greater than \$0; (b) no Subordinated Revolving Facility Repayment to be made will be in respect of any Subordinated Debt other than the Subordinated Revolving Facility; (c) no Priority Payables are due and payable by the Debtors to any party; and (d) payments to all trade creditors of the Debtors are not more than 60 days past due.”

- (b) Section 1 of the Subordination Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

“**Subordinated Credit Agreement**” means any credit or similar agreement among any one or more of the Debtors and the Subordinated Lenders, including, without limitation, the Subordinated Revolving Facility Documents.”

“**Subordinated Debt**” means all debts, liabilities and obligations of the Debtors owing to the Subordinated Lenders now or hereafter existing, of any and every nature whatsoever, whether direct or indirect, absolute or contingent, matured or unmatured, whether as primary debtor or as surety including, without limitation: (i) the Subordinated Revolving Facility; (ii) all debts, liabilities and obligations arising under or pursuant to the Subordinated Security; and (iii) any interest or fees accruing on the Subordinated Debt after the commencement of any action or proceeding under any bankruptcy, insolvency or other similar law, and any interest or fees that would have accrued but for the commencement of any such proceeding, whether or not any such interest or fees is allowed as an enforceable claim in such proceeding.”

“**Subordinated Security**” means, collectively, all security instruments (including, without limitation, all liens, mortgages, charges, pledges and security agreements) securing the Subordinated Debt, or any part thereof, creating security interests in all of the property, assets or undertaking of each of the Debtors (including, without limitation, the Real Property), as such security instruments may be amended, modified, restated, supplemented, replaced, extended or renewed from time to time, including, without limitation, any of the Subordinated Revolving Facility Documents which may grant security in favour of the Subordinated Lenders.”

- (c) Subsection 4(b) of the Subordination Agreement deleted in its entirety and replaced with the following:

“(b) Notwithstanding Subsection (a) above, provided that no Event of Default exists and no Event of Default could or would occur as a result of any payment, the Debtors may make, and the Subordinated Lenders may receive:

- (i) a one-time payment of \$500,000 by the Revolving Borrowers on account of the initial advance fee due in accordance with the Subordinated Revolving Facility Documents, provided that: (A) the Subordinated Revolving Facility Repayment Conditions are satisfied both before and after giving effect to such Subordinated Revolving Facility Repayment; and (B) the Excess Availability at the time of such payment is greater than or equal to \$500,000;
 - (ii) any Subordinated Revolving Facility Repayment by the Revolving Borrowers, provided that: (A) the Subordinated Revolving Facility Repayment Conditions are satisfied both before and after giving effect to such Subordinated Revolving Facility Repayment; and (B) the amount of such Subordinated Revolving Facility Repayment does not exceed Excess Availability at the time of such Subordinated Revolving Facility Repayment; and
 - (iii) and other payments on account of the Subordinated Debt subject to such other payments being consented to in writing in advance by the Senior Lender, which consent may not be unreasonably withheld.”
- 4. **Amendment Fee.** The Debtors shall, jointly and severally, pay to the Senior Lender a fee of \$10,000 (which for greater certainty does not include any reasonable costs, fees or expenses incurred by the Senior Lender in connection with this Amendment and which are for the Debtors’ sole account) (the “**Amendment Fee**”), which Amendment Fee is and shall be deemed to be fully earned, payable and debited from the Debtors’ accounts, upon the execution and delivery of this Amendment.
- 5. **Conditions Precedent.** This Amendment shall be effective when the Senior Lender shall have received a copy of this Amendment executed by the Subordinated Lenders and Debtors, together with each of the following, each in form and substance satisfactory to the Senior Lender in its sole discretion:
 - (a) the payment of the Amendment Fee;
 - (b) the Subordinated Revolving Facility Documents, which shall be in form and substance satisfactory to the Senior Lender in its sole discretion; and
 - (c) such other matters as the Senior Lender may reasonably require, in its sole discretion.
- 6. **Representations and Warranties.** Each the Subordinated Lenders and the Debtors hereby represents and warrants to the Senior Lender as follows:
 - (a) it has all requisite power and authority to execute this Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Amendment and all such other agreements and instruments

has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;

- (b) the execution, delivery and performance by it of this Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
 - (c) all of the representations and warranties contained in the Subordination Agreement are correct on and as of the date hereof as though made on and as of such date.
7. **References.** All references in the Subordination Agreement to “this Agreement” shall be deemed to refer to the Subordination Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended hereby.
8. **No Other Changes.** Except as explicitly amended by this Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.
9. **No Waiver.** The execution of this Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any Event of Default under the Subordination Agreement or a waiver of any breach, default or event of default under the Senior Credit Agreement or other document held by the Senior Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.
10. **Release.** Each of the Subordinated Lenders and the Debtors hereby absolutely and unconditionally releases and forever discharges the Senior Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Subordinated Lenders and the Debtors has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

11. **Costs and Expenses.** The Debtors hereby reaffirm their agreement under the Senior Credit Agreement to pay or reimburse the Senior Lender on demand for all costs and expenses incurred by the Senior Lender in connection with the Senior Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Debtors specifically agree to pay all fees and disbursements of counsel to the Senior Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Debtors hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Debtors under the Senior Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
12. **Counterparts and Execution.** This Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement. If an attorney executes this Amendment on behalf of Northstate Carpet Mills Pty Ltd., such attorney declares that the attorney has no notice of revocation, termination or suspension of the power of attorney under which the attorney executes this Amendment.
13. **Governing Law.** This Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
14. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date written above.

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA,
as lender and as agent for its affiliates and assigns

By:  _____

Name:
Title: Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance
Corporation Canada


PINNACLE CAPITAL RESOURCES LIMITED, on behalf of itself and in its capacity as the general partner of **RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer


KRAUS HOLDINGS COMPANY ULC

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

KRAUS BRANDS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS BRANDS LP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer


KRAUS CANADA LTD. on behalf of itself and in its capacity as the sole general partner of **KRAUS CANADA LP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer


KRAUS CARPET INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS CARPET LP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

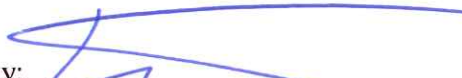
KRAUS PROPERTIES INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS PROPERTIES LP**

By: 
Name: Chris Emmott. c/s
Authorized Signing Officer

KRAUS SYSTEMS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS SYSTEMS LP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

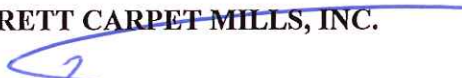
STRUDEX INC. on behalf of itself and in its capacity as the sole general partner of **STRUDEX LP**

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

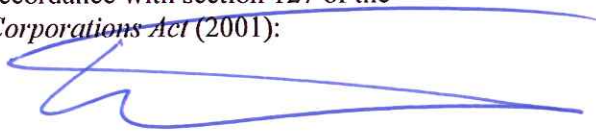
KRAUS USA, INC.

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

BARRETT CARPET MILLS, INC.

By: 
Name: Chris Emmott c/s
Authorized Signing Officer

Executed by **NORTHSTATE CARPET MILLS PTY LTD.** CAN 010 558 540 in accordance with section 127 of the *Corporations Act* (2001):



Director/Company Secretary

Chris Emmott

Name of Director/Company Secretary (BLOCK LETTERS)

Director

Name of Director (BLOCK LETTERS)

SECOND AMENDMENT TO SUBORDINATION AGREEMENT

THIS SECOND AMENDMENT TO SUBORDINATION AGREEMENT (this “**Amendment**”) is made as of this 30 day of December, 2014,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

(the “**Senior Lender**”)

- and -

RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP, and **PINNACLE CAPITAL RESOURCES LIMITED (formerly Pinnacle Capital Resources ULC)**

(each a “**Subordinated Lender**”, and together the “**Subordinated Lenders**”)

- and each of -

KRAUS HOLDINGS COMPANY ULC,
KRAUS BRANDS INC.,
KRAUS BRANDS LP,
KRAUS CANADA LTD.,
KRAUS CANADA LP,
KRAUS CARPET INC.,
KRAUS CARPET LP,
KRAUS PROPERTIES INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS INC.,
KRAUS SYSTEMS LP,
STRUDEX INC.,
STRUDEX LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
NORTHSTATE CARPET MILLS PTY LTD.
(Australian Company Number 010 558 540)
(each a “**Debtor**”, and collectively the “**Debtors**”)

RECITALS:

- A. The Senior Lender, the Subordinated Lenders and the Debtors entered into a Subordination Agreement, dated as of August 6, 2013 (the “**Original Subordination Agreement**”), as amended by a First Amendment to Subordination Agreement dated as of July 25, 2014 (the “**First Amendment**” and collectively with the Original Subordination Agreement, as may be further amended, restated supplemented or replaced, from time to time, the “**Subordination Agreement**”);

- B. Pursuant to the Subordination Agreement, the Lender consented, subject to the terms and conditions thereof, to the Subordinated Lenders providing Kraus Canada LP, Strudex LP, Kraus Carpet LP, Kraus USA Inc. and Barrett Carpet Mills Inc. (collectively, the “**Revolving Borrowers**”) with the Subordinated Revolving Facility (as defined in the First Amendment), on and subject to the terms and conditions of the Subordinated Revolving Facility Documents (as defined in the First Amendment);
- C. At the request of the Debtors, the Lender has consented, subject to the terms set out herein, to the Subordinated Lenders extending the maturity date applicable to the Subordinated Revolving Facility; and
- D. To accommodate such extension of the Subordinated Revolving Facility, the terms and conditions of the Subordination Agreement require amendments as set out below.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

- 1. **Definitions.** All capitalized terms used in this Second Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Subordination Agreement.
- 2. **Consent.** Subject to the terms and conditions contained in this Second Amendment, the Lender hereby consents to the Subordinated Lenders providing the Subordinated Revolving Facility (as defined below) to the Revolving Borrowers.
- 3. **Amendments to Subordination Agreement.** The Subordination Agreement is hereby amended as follows:
 - (a) Section 1 of the Subordination Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

“**Subordinated Revolving Facility**” means the revolving credit facility, in the maximum principal amount of Cdn.\$10,000,000, made available to the Revolving Borrowers by the Subordinated Lenders pursuant to the terms of the Subordinated Revolving Facility Documents. For greater certainty, it is acknowledged and agreed that the Subordinated Revolving Facility may, subject to the provisions of this Agreement, be repaid and re-borrowed.”

“**Subordinated Revolving Facility Documents**” means the amended and restated term sheet dated as of December __, 2014 made among the Revolving Borrowers and the Subordinated Lenders, the amended and restated subordinated promissory note dated December __, 2014 issued by the Revolving Borrowers in favour of the Subordinated Lenders, and all agreements, instruments or documents executed in connection therewith.”

““**Subordinated Revolving Facility Repayment**” means any payment on account of the principal amount of the Subordinated Revolving Facility outstanding from time to time, and any interest thereon at the rate in effect in the Subordinated Revolving Facility Documents as of December _____, 2014 but does not include any such payment made with (i) Australian Sale Proceeds or (ii) proceeds of any refinancing of the Subordinated Revolving Facility by way of a term loan from a term lender on terms and conditions previously discussed with the Senior Lender, including, without limitation, the granting of a first ranking security interest in the Waterloo Property (such refinancing being the “**Term Loan**”).”

4. **Conditions Precedent.** This Second Amendment shall be effective when the Senior Lender shall have received a copy of this Second Amendment executed by the Subordinated Lenders and Debtors, together with each of the following, each in form and substance satisfactory to the Senior Lender in its sole discretion:
 - (a) the Subordinated Revolving Facility Documents, which shall be in form and substance satisfactory to the Senior Lender in its sole discretion; and
 - (b) such other matters as the Senior Lender may reasonably require, in its sole discretion.

5. **Representations and Warranties.** Each the Subordinated Lenders and the Debtors hereby represents and warrants to the Senior Lender as follows:
 - (a) it has all requisite power and authority to execute this Second Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Second Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
 - (b) the execution, delivery and performance by it of this Second Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
 - (c) all of the representations and warranties contained in the Subordination Agreement are correct on and as of the date hereof as though made on and as of such date.

6. **References.** All references in the Subordination Agreement to “this Agreement” shall be deemed to refer to the Subordination Agreement as amended hereby without novation;

and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended hereby.

7. **No Other Changes.** Except as explicitly amended by this Second Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.
8. **No Waiver.** The execution of this Second Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any Event of Default under the Subordination Agreement or a waiver of any breach, default or event of default under the Senior Credit Agreement or other document held by the Senior Lender, whether or not known to the Lender and whether or not existing on the date of this Second Amendment.
9. **Release.** Each of the Subordinated Lenders and the Debtors hereby absolutely and unconditionally releases and forever discharges the Senior Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Subordinated Lenders and the Debtors has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Second Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
10. **Costs and Expenses.** The Debtors hereby reaffirm their agreement under the Senior Credit Agreement to pay or reimburse the Senior Lender on demand for all costs and expenses incurred by the Senior Lender in connection with the Senior Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Debtors specifically agree to pay all fees and disbursements of counsel to the Senior Lender for the services performed by such counsel in connection with the preparation of this Second Amendment and the documents and instruments incidental hereto. The Debtors hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Debtors under the Senior Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
11. **Counterparts and Execution.** This Second Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement. If an attorney executes this Second Amendment on behalf of Northstate Carpet Mills Pty Ltd., such attorney declares that the attorney has no notice

of revocation, termination or suspension of the power of attorney under which the attorney executes this Second Amendment.

12. **Governing Law.** This Second Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
13. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date written above.

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA,
as lender and as agent for its affiliates and assigns

By:  _____

Name:

Title:

Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance
Corporation Canada

PINNACLE CAPITAL RESOURCES LIMITED, on behalf of itself and in its capacity as the general partner of **RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP**

KRAUS HOLDINGS COMPANY ULC

By: _____
Name: _____ c/s
Authorized Signing Officer

By: _____
Name: _____ c/s
Authorized Signing Officer

KRAUS BRANDS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS BRANDS LP**

KRAUS CANADA LTD. on behalf of itself and in its capacity as the sole general partner of **KRAUS CANADA LP**

By: _____
Name: _____ c/s
Authorized Signing Officer

By: _____
Name: _____ c/s
Authorized Signing Officer

KRAUS CARPET INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS CARPET LP**

KRAUS PROPERTIES INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS PROPERTIES LP**

By: _____
Name: _____ c/s
Authorized Signing Officer

By: _____
Name: _____ c/s
Authorized Signing Officer

KRAUS SYSTEMS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS SYSTEMS LP**

STRUDEX INC. on behalf of itself and in its capacity as the sole general partner of **STRUDEX LP**

By: _____
Name: _____ c/s
Authorized Signing Officer

By: _____
Name: _____ c/s
Authorized Signing Officer

KRAUS USA, INC.

BARRETT CARPET MILLS, INC.

By: _____
Name: _____ c/s
Authorized Signing Officer

By: _____
Name: _____ c/s
Authorized Signing Officer

Executed by **NORTHSTATE CARPET MILLS PTY LTD.** CAN 010 558 540 in accordance with section 127 of the *Corporations Act* (2001):

Director/Company Secretary

Director

Name of Director/Company Secretary
(BLOCK LETTERS)

Name of Director
(BLOCK LETTERS)

THIRD AMENDMENT TO SUBORDINATION AGREEMENT

THIS THIRD AMENDMENT TO SUBORDINATION AGREEMENT (this “**Amendment**”) is made as of this 31 day of March, 2015,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

(the “**Senior Lender**”)

- and -

RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP, and **PINNACLE CAPITAL RESOURCES LIMITED** (formerly **Pinnacle Capital Resources ULC**)

(each a “**Subordinated Lender**”, and together the “**Subordinated Lenders**”)

- and each of -

KRAUS HOLDINGS COMPANY ULC,
KRAUS BRANDS INC.,
KRAUS BRANDS LP,
KRAUS CANADA LTD.,
KRAUS CANADA LP,
KRAUS CARPET INC.,
KRAUS CARPET LP,
KRAUS PROPERTIES INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS INC.,
KRAUS SYSTEMS LP,
STRUDEX INC.,
STRUDEX LP,
KRAUS USA, INC.,
BARRETT CARPET MILLS, INC., and
NORTHSTATE CARPET MILLS PTY LTD.
(Australian Company Number 010 558 540)
(each a “**Debtor**”, and collectively the “**Debtors**”)

RECITALS:

- A. The Senior Lender, the Subordinated Lenders and the Debtors entered into a Subordination Agreement, dated as of August 6, 2013, as amended by a First Amendment to Subordination Agreement dated as of July 25, 2014 (the “**First Amendment**”) and by a Second Amendment to Subordination Agreement dated as of December 30, 2014 (collectively, as may be further amended, restated supplemented or replaced, from time to time, the “**Subordination Agreement**”);

- B. Pursuant to the Subordination Agreement, the Lender consented, subject to the terms and conditions thereof, to the Subordinated Lenders providing Kraus Canada LP, Strudex LP, Kraus Carpet LP, Kraus USA Inc. and Barrett Carpet Mills Inc. (collectively, the “**Revolving Borrowers**”) with the Subordinated Revolving Facility (as defined in the First Amendment), on and subject to the terms and conditions of the Subordinated Revolving Facility Documents (as defined in the First Amendment);
- C. At the request of the Debtors, the Lender has consented, subject to the terms set out herein, to the Subordinated Lenders extending the maturity date applicable to the Subordinated Revolving Facility; and
- D. To accommodate such extension of the Subordinated Revolving Facility, the terms and conditions of the Subordination Agreement require amendments as set out below.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

- 1. **Definitions.** All capitalized terms used in this Third Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Subordination Agreement.
- 2. **Consent.** Subject to the terms and conditions contained in this Third Amendment, the Lender hereby consents to the Subordinated Lenders providing the Subordinated Revolving Facility (as defined below) to the Revolving Borrowers.
- 3. **Amendments to Subordination Agreement.** The Subordination Agreement is hereby amended as follows:
 - (a) Section 1 of the Subordination Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

“**Subordinated Revolving Facility Documents**” means the second amended and restated term sheet dated as of March _____, 2015 made among the Revolving Borrowers and the Subordinated Lenders, the second amended and restated subordinated promissory note dated March _____, 2015 issued by the Revolving Borrowers in favour of the Subordinated Lenders, and all agreements, instruments or documents executed in connection therewith.”

“**Subordinated Revolving Facility Repayment**” means any payment on account of the principal amount of the Subordinated Revolving Facility outstanding from time to time, and any interest thereon at the rate in effect in the Subordinated Revolving Facility Documents as of March _____, 2015 but does not include any such payment made with (i) Australian Sale Proceeds or (ii) proceeds of any refinancing of the Subordinated Revolving Facility by way of a term loan from a term lender on terms and conditions previously discussed with the Senior Lender, including, without limitation, the granting of a first ranking

security interest in the Waterloo Property (such refinancing being the “**Term Loan**”).”

4. **Conditions Precedent.** This Third Amendment shall be effective when the Senior Lender shall have received a copy of this Third Amendment executed by the Subordinated Lenders and Debtors, together with each of the following, each in form and substance satisfactory to the Senior Lender in its sole discretion:
 - (a) the Subordinated Revolving Facility Documents, which shall be in form and substance satisfactory to the Senior Lender in its sole discretion; and
 - (b) such other matters as the Senior Lender may reasonably require, in its sole discretion.
5. **Representations and Warranties.** Each the Subordinated Lenders and the Debtors hereby represents and warrants to the Senior Lender as follows:
 - (a) it has all requisite power and authority to execute this Third Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Third Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
 - (b) the execution, delivery and performance by it of this Third Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
 - (c) all of the representations and warranties contained in the Subordination Agreement are correct on and as of the date hereof as though made on and as of such date.
6. **References.** All references in the Subordination Agreement to “this Agreement” shall be deemed to refer to the Subordination Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended hereby.
7. **No Other Changes.** Except as explicitly amended by this Third Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.

8. **No Waiver.** The execution of this Third Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any Event of Default under the Subordination Agreement or a waiver of any breach, default or event of default under the Senior Credit Agreement or other document held by the Senior Lender, whether or not known to the Lender and whether or not existing on the date of this Third Amendment.
9. **Release.** Each of the Subordinated Lenders and the Debtors hereby absolutely and unconditionally releases and forever discharges the Senior Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Subordinated Lenders and the Debtors has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Third Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
10. **Costs and Expenses.** The Debtors hereby reaffirm their agreement under the Senior Credit Agreement to pay or reimburse the Senior Lender on demand for all costs and expenses incurred by the Senior Lender in connection with the Senior Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Debtors specifically agree to pay all fees and disbursements of counsel to the Senior Lender for the services performed by such counsel in connection with the preparation of this Third Amendment and the documents and instruments incidental hereto. The Debtors hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Debtors under the Senior Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
11. **Counterparts and Execution.** This Third Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement. If an attorney executes this Third Amendment on behalf of Northstate Carpet Mills Pty Ltd., such attorney declares that the attorney has no notice of revocation, termination or suspension of the power of attorney under which the attorney executes this Third Amendment.
12. **Governing Law.** This Third Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.

13. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date written above.

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA,
as lender and as agent for its affiliates and assigns

By: 

Name:

Title:

Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance
Corporation Canada

PINNACLE CAPITAL RESOURCES LIMITED, on behalf of itself and in its capacity as the general partner of **RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer


KRAUS HOLDINGS COMPANY ULC

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer


KRAUS BRANDS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS BRANDS LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

KRAUS CANADA LTD. on behalf of itself and in its capacity as the sole general partner of **KRAUS CANADA LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer


KRAUS CARPET INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS CARPET LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

KRAUS PROPERTIES INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS PROPERTIES LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

KRAUS SYSTEMS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS SYSTEMS LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

STRUDEX INC. on behalf of itself and in its capacity as the sole general partner of **STRUDEX LP**

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

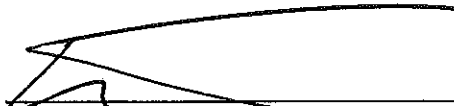
KRAUS USA, INC.

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

BARRETT CARPET MILLS, INC.

By: 
Name: C. EMMOTT c/s
Authorized Signing Officer

Executed by **NORTHSTATE CARPET MILLS PTY LTD.** CAN 010 558 540 in accordance with section 127 of the *Corporations Act (2001)*:



Director/Company Secretary

C. EMMOTT

Name of Director/Company Secretary
(BLOCK LETTERS)

Director

Name of Director
(BLOCK LETTERS)

FOURTH AMENDMENT TO SUBORDINATION AGREEMENT

THIS FOURTH AMENDMENT TO SUBORDINATION AGREEMENT (this “**Amendment**”) is made as of this 29 day of February, 2016,

A M O N G:

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as lender and as agent for its affiliates and assigns

(the “**Senior Lender**”)

- and -

RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP, PINNACLE CAPITAL RESOURCES LIMITED (formerly **Pinnacle Capital Resources ULC**) and **2497919 ONTARIO INC.**

(each a “**Subordinated Lender**”, and together the “**Subordinated Lenders**”)

- and each of -

KRAUS HOLDINGS COMPANY ULC,
KRAUS BRANDS INC.,
KRAUS BRANDS LP,
KRAUS CANADA LTD.,
KRAUS CANADA LP,
KRAUS CARPET INC.,
KRAUS CARPET LP,
KRAUS PROPERTIES INC.,
KRAUS PROPERTIES LP,
KRAUS SYSTEMS INC.,
KRAUS SYSTEMS LP,
STRUDEX INC.,
STRUDEX LP,
KRAUS USA, INC., and
BARRETT CARPET MILLS, INC.
(each a “**Debtor**”, and collectively the “**Debtors**”)

RECITALS:

- A. The Senior Lender, certain of the Subordinated Lenders and the Debtors entered into a Subordination Agreement, dated as of August 6, 2013, as amended by a First Amendment to Subordination Agreement dated as of July 25, 2014 (the “**First Amendment**”), a Second Amendment to Subordination Agreement dated as of December 30, 2014 and a Third Amendment to Subordination Agreement dated March 31, 2015 (collectively, as may be further amended, restated supplemented or replaced, from time to time, the “**Subordination Agreement**”);

- B. Pursuant to the Subordination Agreement, the Lender consented, subject to the terms and conditions thereof, to the Subordinated Lenders providing Kraus Canada LP, Strudex LP, Kraus Carpet LP, Kraus USA Inc. and Barrett Carpet Mills Inc. (collectively, the “**Revolving Borrowers**”) with the Subordinated Revolving Facility (as defined in the First Amendment), on and subject to the terms and conditions of the Subordinated Revolving Facility Documents (as defined in the First Amendment);
- C. At the request of the Debtors, the Lender has consented, subject to the terms set out herein, to: (i) the Subordinated Lenders extending the maturity date applicable to the Subordinated Revolving Facility and (ii) the addition of 2497919 Ontario Inc. as a “Subordinated Lender”; and
- D. To accommodate such extension of the Subordinated Revolving Facility, the terms and conditions of the Subordination Agreement require amendments as set out below.

NOW THEREFORE, in consideration of the accommodations of credit provided for herein, the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

- 1. **Definitions.** All capitalized terms used in this Fourth Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Subordination Agreement.
- 2. **Consent.** Subject to the terms and conditions contained in this Fourth Amendment, the Lender hereby consents to the Subordinated Lenders providing the Subordinated Revolving Facility (as defined below) to the Revolving Borrowers.
- 3. **Amendments to Subordination Agreement.** The Subordination Agreement is hereby amended as follows:
 - (a) Upon the effectiveness of this Fourth Amendment:
 - (i) “**NORTHSTATE CARPET MILLS PTY LTD.** (Australian Company Number 010 558 540)” shall no longer be considered a “Debtor” under the Subordination Agreement; and
 - (ii) “**2497919 ONTARIO INC.**” shall be a “Subordinated Lender” under the Subordination Agreement.
 - (b) Section 1 of the Subordination Agreement is amended by deleting the defined terms listed below in their entirety and replacing them with the following:

““**Subordinated Revolving Facility Documents**” means the third amended and restated term sheet dated as of December 29, 2015 made among the Revolving Borrowers and the Subordinated Lenders, the third amended and restated subordinated promissory note dated December 29, 2015 issued by the Revolving

Borrowers in favour of the Subordinated Lenders, and all agreements, instruments or documents executed in connection therewith.”

“**Subordinated Revolving Facility Repayment**” means any payment on account of the principal amount of the Subordinated Revolving Facility outstanding from time to time, and any interest thereon at the rate in effect in the Subordinated Revolving Facility Documents as of December 29, 2015 but does not include any such payment made with (i) Australian Sale Proceeds or (ii) proceeds of any refinancing of the Subordinated Revolving Facility by way of a term loan from a term lender on terms and conditions previously discussed with the Senior Lender, including, without limitation, the granting of a first ranking security interest in the Waterloo Property (such refinancing being the “**Term Loan**”).”

4. **Conditions Precedent.** This Fourth Amendment shall be effective when the Senior Lender shall have received a copy of this Fourth Amendment executed by the Subordinated Lenders and Debtors, together with each of the following, each in form and substance satisfactory to the Senior Lender in its sole discretion:
 - (a) the Subordinated Revolving Facility Documents, which shall be in form and substance satisfactory to the Senior Lender in its sole discretion; and
 - (b) such other matters as the Senior Lender may reasonably require, in its sole discretion.

5. **Representations and Warranties.** Each the Subordinated Lenders and the Debtors hereby represents and warrants to the Senior Lender as follows:
 - (a) it has all requisite power and authority to execute this Fourth Amendment and any other agreements or instruments required hereunder and to perform all obligations hereunder, and this Fourth Amendment and all such other agreements and instruments has been duly executed and delivered by it and constitutes legal, valid and binding obligations, enforceable in accordance with its terms;
 - (b) the execution, delivery and performance by it of this Fourth Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to it, or its articles of incorporation or by-laws, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or its properties may be bound or affected; and
 - (c) all of the representations and warranties contained in the Subordination Agreement are correct on and as of the date hereof as though made on and as of such date.

6. **References.** All references in the Subordination Agreement to “this Agreement” shall be deemed to refer to the Subordination Agreement as amended hereby without novation; and any and all references in any other document, instrument or agreement to the Subordination Agreement shall be deemed to refer to the Subordination Agreement as amended hereby.
7. **No Other Changes.** Except as explicitly amended by this Fourth Amendment, all of the terms and conditions of the Subordination Agreement shall remain in full force and effect and unamended hereby.
8. **No Waiver.** The execution of this Fourth Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any Event of Default under the Subordination Agreement or a waiver of any breach, default or event of default under the Senior Credit Agreement or other document held by the Senior Lender, whether or not known to the Lender and whether or not existing on the date of this Fourth Amendment.
9. **Release.** Each of the Subordinated Lenders and the Debtors hereby absolutely and unconditionally releases and forever discharges the Senior Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state, provincial or federal law or otherwise, which any of the Subordinated Lenders and the Debtors has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Fourth Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.
10. **Costs and Expenses.** The Debtors hereby reaffirm their agreement under the Senior Credit Agreement to pay or reimburse the Senior Lender on demand for all costs and expenses incurred by the Senior Lender in connection with the Senior Credit Agreement, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Debtors specifically agree to pay all fees and disbursements of counsel to the Senior Lender for the services performed by such counsel in connection with the preparation of this Fourth Amendment and the documents and instruments incidental hereto. The Debtors hereby agree that the Senior Lender may, at any time or from time to time in its sole discretion and without further authorization by it, make a loan to the Debtors under the Senior Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.
11. **Counterparts and Execution.** This Fourth Amendment may be executed in any number of counterparts or by facsimile or electronic delivery, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same agreement.

12. **Governing Law.** This Fourth Amendment shall be exclusively (without regard to any rules or principles relating to conflicts of laws) governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract and the parties hereto hereby submit to the jurisdiction of the courts of the Province of Ontario.
13. **Time of Essence.** Time shall be in all respects of the essence herein.

[Signature Pages Follow]

IN WITNESS WHEREOF the parties have duly executed this Fourth Amendment as of the date written above.

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA,
as lender and as agent for its affiliates and assigns

By:  _____

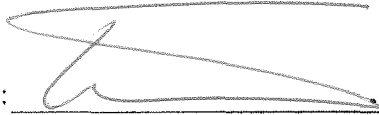
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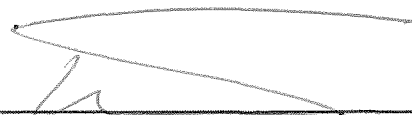
Title:

Kevin Freer
Vice President, Relationship Manager
Wells Fargo Capital Finance
Corporation Canada


**PINNACLE CAPITAL RESOURCES
LIMITED**, on behalf of itself and in its
capacity as the general partner of **RED ASH
CAPITAL PARTNERS II LIMITED
PARTNERSHIP**

2497919 ONTARIO INC.


By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer


KRAUS BRANDS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS BRANDS LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer


KRAUS CANADA LTD. on behalf of itself and in its capacity as the sole general partner of **KRAUS CANADA LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer


KRAUS CARPET INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS CARPET LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

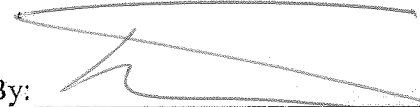
KRAUS PROPERTIES INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS PROPERTIES LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer


KRAUS SYSTEMS INC. on behalf of itself and in its capacity as the sole general partner of **KRAUS SYSTEMS LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

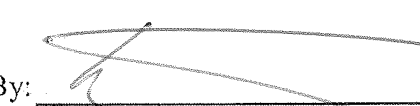
STRUDEX INC. on behalf of itself and in its capacity as the sole general partner of **STRUDEX LP**

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

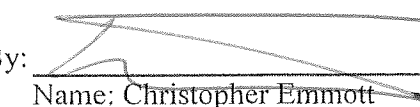
KRAUS USA, INC.

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

BARRETT CARPET MILLS, INC.

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

KRAUS HOLDINGS COMPANY ULC

By: 
Name: Christopher Emmott c/s
Authorized Signing Officer

Appendix "G"

Sale and Recognition Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re

Kraus Carpet Inc., et al.,¹

Debtors in a Foreign Proceeding.

Chapter 15

Case No. 18-12057 (KG)

Jointly Administered

Re: D.I. 9, 21 & 38

**CERTIFICATION OF COUNSEL REGARDING *PROPOSED* ORDER GRANTING
MOTION OF FOREIGN REPRESENTATIVE PURSUANT TO SECTIONS 105(a), 363,
365, 1501, 1507, 1520, AND 1521 OF THE BANKRUPTCY CODE, AND BANKRUPTCY
RULES 2002, 6004, 6006, AND 9014, FOR ENTRY OF AN ORDER (I) RECOGNIZING
AND ENFORCING THE APPROVAL AND VESTING ORDER; (II) AUTHORIZING
THE SALE OF THE DEBTORS' TPS BUSINESS FREE AND CLEAR OF ANY AND
ALL LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS; AND (III)
GRANTING RELATED RELIEF**

The undersigned counsel to the Foreign Representative of the above-captioned debtors in a foreign proceeding (the "Debtors") hereby certifies as follows:

1. On September 11, 2018, the Foreign Representative filed the *Motion of Foreign Representative Pursuant to Sections 105(a), 363, 365, 1501, 1507, 1520, and 1521 of the Bankruptcy Code, and Bankruptcy Rules 2002, 6004, 6006, and 9014, for Entry of an Order (I) Recognizing and Enforcing the Approval and Vesting Order; (II) Authorizing the Sale of the Debtors' TPS Business Free and Clear of Any and All Liens, Claims, Encumbrances, and Other Interests; and (III) Granting Related Relief* (D.I. 9) (the "Sale Motion").²

¹ The Debtors in these chapter 15 cases and the last four digits of each Debtor's U.S. tax identification number or Canadian Business Number, as applicable, are as follows: Kraus USA Inc. (USA) (1024); Strudex Inc. (0906); Kraus Carpet Inc. (8687); Kraus Properties Inc. (1102); Kraus Canada Ltd. (1300); and Kraus Brands Inc. (8885). The Debtors' mailing address for purposes of these chapter 15 cases is 65 Northfield Drive West, Waterloo, Ontario, Canada.

² Capitalized terms not defined herein are defined in the Sale Motion.

2. On September 12, 2018, the Foreign Representative filed and caused to be served a notice (D.I. 21) (the “Notice”) of the hearing on, and objection deadline with respect to, the Sale Motion.

3. On September 20, 2018, the Foreign Representative filed and served a supplemental notice (D.I. 38) (the “Supplemental Notice”) concerning the Sale Motion, noting that the Canadian Court had entered the Canadian Sale Order, and attaching copies of the Canadian Sale Order, as well as a substantially unredacted copy of the Asset Purchase Agreement and the Purchase and Sale Agreement approved by the Canadian Sale Order.

4. The Foreign Representative received comments to the proposed form of order (the “Proposed Sale Order”) granting the Sale Motion from counsel to the Purchaser and counsel to the Purchaser’s lender. The Foreign Representative has made revisions to the Proposed Sale Order to address such comments. Attached as **Exhibit A** is the revised Proposed Sale Order incorporating such revisions. Attached as **Exhibit B** is a redline of the revised Proposed Sale Order against the version attached to the Sale Motion.

5. Objections, if any, to the relief requested in the Sale Motion were due no later than September 26, 2018, at 4:00 p.m.

6. No objections were received.

7. Counsel to each of the U.S. Trustee, the Debtors, the Purchaser, the Purchaser’s lender, and the Monitor have reviewed the revised Proposed Sale Order, and have indicated that they do not object to its entry.

WHEREFORE, the Foreign Representative respectfully requests that the Court enter the revised Proposed Sale Order attached as **Exhibit A**.

Dated: October 1, 2018
Wilmington, Delaware

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

/s/ Matthew B. Harvey

Derek C. Abbott (No. 3376)
Matthew B. Harvey (No. 5186)
1201 N. Market St., 16th Floor
Wilmington, DE 19801
Telephone: (302) 658-9200
Facsimile: (302) 658-3989
dabbott@mnat.com
mharvey@mnat.com

-and-

HONIGMAN MILLER SCHWARTZ AND COHN LLP

Joseph R. Sgroi
Scott B. Kitei
Glenn S. Walter
2290 First National Building
660 Woodward Avenue
Detroit, Michigan 48226-3506
Telephone: (313) 465-7000
Facsimile: (313) 465-7713
jsgroi@honigman.com
skitei@honigman.com
gwalter@honigman.com

Counsel to the Foreign Representative

Exhibit A

Revised Proposed Sale Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:	: -X	Chapter 15
	:	
Kraus Carpet Inc., <u>et al.</u> , ¹	:	Case No. 18-12057(KG)
	:	
Debtors in a Foreign Proceeding.	:	Jointly Administered
	:	
	:	Re: D.I. 2, 9, 10, 21, 38 & ____
	: -X	

ORDER GRANTING MOTION OF FOREIGN REPRESENTATIVE PURSUANT TO SECTIONS 105(a), 363, 365, 1501, 1507, 1520, AND 1521 OF THE BANKRUPTCY CODE, AND BANKRUPTCY RULES 2002, 6004, 6006, AND 9014, FOR ENTRY OF AN ORDER (I) RECOGNIZING AND ENFORCING THE APPROVAL AND VESTING ORDER; (II) AUTHORIZING THE SALE OF THE DEBTORS’ TPS BUSINESS FREE AND CLEAR OF ANY AND ALL LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS; AND (III) GRANTING RELATED RELIEF

Upon the motion (the “Motion”)² of Kraus Carpet Inc. (the “Foreign Representative”), in its capacity as the authorized foreign representative of the above captioned debtors (the “Debtors”) in a Canadian proceeding (the “CCAA Proceeding”) under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36 (as amended, the “CCAA”) pending before the Ontario Superior Court of Justice (the “Canadian Court”), for entry of an order pursuant to sections 105(a) 363, 365, 1501, 1507, 1520, and 1521 of title 11 of the United States Code (the “Bankruptcy Code”), Rules 2002, 6004, 6006, and 9014 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and Rule 6004-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local

¹ The Debtors in these chapter 15 cases and the last four digits of each Debtor’s U.S. tax identification number or Canadian Business Number, as applicable, are as follows: Kraus USA Inc. (USA) (1024); Strudex Inc. (0906); Kraus Carpet Inc. (8687); Kraus Properties Inc. (1102); Kraus Canada Ltd. (1300); and Kraus Brands Inc. (8885). The Debtors’ mailing address for purposes of these chapter 15 cases is 65 Northfield Drive West, Waterloo, Ontario, Canada.

² Capitalized terms used herein but not otherwise defined have the meanings given to them in the applicable Acquisition Agreement (as defined below) or, if not defined in the Acquisition Agreement, the meanings given to them in the Motion.

Rules”): (a) recognizing the Sale Approval and Vesting Order entered by the Canadian Court (the “Canadian Sale Order”); (b) authorizing and approving the sale (the “Sale”) of the Debtors’ TPS Business (the “Assets”), pursuant to the terms and conditions set forth in (i) that certain Asset Purchase Agreement (the “Asset Purchase Agreement”) between Kraus Canada LP, Kraus Properties LP, Kraus USA, Inc., and Kraus Carpet LP on the one hand and Q.E.P. Co., Inc. and Roberts Company Canada Ltd. (Q.E.P. Co., Inc. and Roberts Company Canada Ltd., individually and collectively, the “Purchaser”) on the other hand; and (ii) that certain Purchase and Sale Agreement (the “Real Estate Purchase Agreement”, together with the Asset Purchase Agreement, individually and collectively, the “Acquisition Agreement”) between Kraus USA, Inc., and Purchaser, in each case free and clear of liens, claims, encumbrances, and other interests, in each case free and clear of liens, claims, encumbrances, and other interests other than Permitted Encumbrances; and (c) granting certain relief related thereto; and upon the *Declaration of Christopher Emmott in Support of (A) Motion of Foreign Representative for Entry of Provisional and Final Orders Granting Recognition of Foreign Main Proceeding, and (B) Other First Day Relief* (the “Emmott Declaration”), and the *Declaration of Susan Mingie in Support of the Motion of Foreign Representative Pursuant to Sections 105(a), 353, 365, 1501, 1507, 1520, and 1521 of the Bankruptcy Code, and Bankruptcy Rules 2002, 6004, 6006, and 9014, for Entry of an Order (I) Recognizing and Enforcing the Approval and Vesting Order; (II) Authorizing the Sale of the Debtors’ TPS Business Free and Clear of Any and All Liens, Claims, Encumbrances, and Other Interests; and (III) Granting Related Relief* (the “Mingie Declaration”); and the arguments of counsel made, and the evidenced adduced, at a hearing before this Court (the “Sale Hearing”); and upon the record of the Sale Hearing and the above-

captioned chapter 15 cases, and after due deliberation thereon, and good cause appearing therefor, and in accordance with Bankruptcy Rule 7052, it is hereby

FOUND AND DETERMINED THAT³:

A. The Canadian Court has duly entered the Canadian Sale Order approving and authorizing the Debtors' execution of the Acquisition Agreement and consummation of the Sale of the Assets.

B. This Court has jurisdiction and authority to hear and determine the Motion pursuant to 28 U.S.C. §§ 1334 and 157(b). Venue of these chapter 15 cases and the Motion in this Court and this District is proper under 28 U.S.C. § 1410.

C. Based on the affidavits of service filed with, and representations made to, this Court: (i) notice of the Motion, the Sale Hearing, and the Sale was proper, timely, adequate, and sufficient under the circumstances of these chapter 15 cases and these proceedings and complied with the various applicable requirements of the Bankruptcy Code and the Bankruptcy Rules; and (ii) no other or further notice of the Motion, the Sale Hearing, the Sale, or the entry of this Order is necessary or shall be required.

D. The Foreign Representative provided notice and a reasonable opportunity to object and be heard with respect to the Sale, the Motion, and the relief requested therein to the necessary parties in interest, including the following: (i) counsel to Wells Fargo Capital Finance Corporation Canada (the Debtors' prepetition senior secured lender); (ii) Red Ash Capital Partners II Limited Partnership (the Debtors' prepetition junior secured lender); (iii) any party

³ The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052 made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

known to hold or assert a lien on any of the Assets; (iv) counsel to the Debtors in the Canadian Proceeding on behalf of the Debtors; (v) the Office of the United States Trustee for the District of Delaware; and (vi) all parties who have requested notice in these chapter 15 cases pursuant to Bankruptcy Rule 2002.

E. This Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a).

F. The relief granted herein is necessary and appropriate, is in the interest of the public, promotes international comity, is consistent with the public policy of the United States, is warranted pursuant to sections 105(a), 363(b), (f), (m) and (n), 365, 1501, 1514, 1520, and 1521 of the Bankruptcy Code, and will not cause any hardship to any parties in interest that is not outweighed by the benefits of the relief granted.

G. Based on information contained in the Motion, the Emmott Declaration, the Mingie Declaration, and the record made at the Sale Hearing, Deloitte Corporate Finance conducted a marketing process to solicit interest in the Assets and the sale process was non-collusive, duly noticed and provided a reasonable opportunity for other entities to make an offer to purchase the Assets. The Canadian Court authorized the Sale pursuant to the terms of the Acquisition Agreement and entered the Canadian Sale Order. The Foreign Representative has recommended the Sale in accordance with the Acquisition Agreement, and it is appropriate that the Assets be sold, transferred, assigned, and vested in the Purchaser on the terms set forth in the Acquisition Agreement.

H. The Debtors entry into and performance under the Acquisition Agreement and related agreements (i) constitute a sound and reasonable exercise of the Debtors' business judgment, (ii) provide value to and are beneficial to the Debtors, and are in the best interests of

the Debtors and their stakeholders, and (iii) are reasonable and appropriate under the circumstances. Business justifications for the Sale include, but are not limited to, the following: (I) the Acquisition Agreement constitutes the highest and best offer received for the Assets; (II) the Acquisition Agreement presents the best opportunity to maximize the value of the Assets on a going concern basis and avoid decline and devaluation of the Assets; (III) unless the Sale and all of the other transactions contemplated by the Acquisition Agreement and related agreements are concluded expeditiously, as provided for pursuant to the Acquisition Agreement, recoveries to creditors may be diminished; and (IV) the value received for the Assets will be maximized through the sale pursuant to the Acquisition Agreement and related agreements.

I. The consideration provided by the Purchaser for the Assets under the Acquisition Agreement constitutes fair consideration and reasonably equivalent value for the Assets under the Bankruptcy Code, the Uniform Fraudulent Transfer Act, the Uniform Fraudulent Conveyance Act, and the laws of the United States, any state, territory, possession thereof, or the District of Columbia.

J. No bulk sales law or any similar law of any state or other U.S. jurisdiction shall apply in any way to the Sale.

K. Purchaser is not, and will not be, a mere continuation, and is not holding itself out as a mere continuation, of any of the Debtors and there is no continuity between Purchaser and the Debtors. The Sale does not amount to a consolidation, merger or *de facto* merger of Purchaser and any of the Debtors.

L. Time is of the essence in consummating the Sale. To maximize the value of the Assets, it is essential that the Sale occur and be recognized and enforced in the United States promptly. The Foreign Representative on behalf of the Debtors has demonstrated compelling

circumstances and a good, sufficient, and sound business purpose and justification for the immediate approval and consummation of the Sale as contemplated by the Acquisition Agreement. Accordingly, there is cause to waive the stay that would otherwise be applicable under Bankruptcy Rules 6004(h) and 6006(d), and accordingly the transaction contemplated by the Acquisition Agreement can be closed immediately upon entry of this Order.

M. Based upon information contained in the Motion, the Emmott Declaration, the Mingie Declaration, the other pleadings filed in the above-captioned cases, and the record made at the Sale Hearing, the Acquisition Agreement and each of the transactions contemplated therein were negotiated, proposed and entered into by the Debtors and Purchaser in good faith, without collusion and from arms'-length bargaining positions. Purchaser is a "good faith purchaser" within the meaning of section 363(m) of the Bankruptcy Code and, as such, is entitled to all the protections afforded thereby. Neither the Debtors, the Foreign Representative, nor Purchaser has engaged in any conduct that would cause or permit the Acquisition Agreement or the consummation of the Sale to be avoided or costs and damages to be imposed under section 363(n) of the Bankruptcy Code. Purchaser is not an "insider" of any of the Debtors, as that term is defined in section 101 of the Bankruptcy Code, and no common identity of incorporators, directors, or controlling stockholders existed between Purchaser and the Debtors.

N. The Acquisition Agreement was not entered into for the purpose of hindering, delaying, or defrauding present or future creditors of the Debtors.

O. The Foreign Representative, on behalf of itself and the Debtors, may sell the Assets free and clear of all liens, claims (as defined in section 101(5) of the Bankruptcy Code), rights, liabilities, encumbrances and other interests of any kind or nature whatsoever against the Debtors or the Assets, other than Permitted Encumbrances, because with respect to each creditor

asserting any such interest, one or more of the standards set forth in section 363(f)(1)-(5) of the Bankruptcy Code has been satisfied.

P. The total consideration to be provided under the Acquisition Agreement reflects Purchaser's reliance on this Order to provide it, pursuant to sections 105(a) and 363(f) of the Bankruptcy Code, with title to and possession of the Assets free and clear of all Claims (including, without limitation, any potential derivative, vicarious, transferee or successor liability Claims), other than Permitted Encumbrances.

Q. The transfer of the Debtors' rights under the Transferred Contracts as and to the extent provided in the Canadian Sale Order is integral to the Acquisition Agreement, is in the best interests of the Debtors and represents the reasonable exercise of the Debtors' business judgment.

R. As of the filing of the Monitor's Certificate in the CCAA Proceeding and the delivery thereof to the Purchaser, the transfer of the Assets to Purchaser will be a legal, valid and effective transfer of the Assets, and will vest Purchaser with all right, title and interest of the Debtors in and to the Assets, free and clear of all Claims, other than the Permitted Encumbrances..

S. The Foreign Representative and Debtors (i) have full power and authority to execute the Acquisition Agreement and all other documents contemplated thereby, and the Sale has been duly and validly authorized by all necessary corporate action of the Debtors, (ii) have all of power and authority necessary to consummate the transactions contemplated by the Acquisition Agreement, and (iii) upon entry of this Order, other than any consents identified in the Acquisition Agreement (including with respect to antitrust matters), need no consent or approval from any other Person to consummate the Sale.

T. The Debtors are the sole and rightful owners of the Assets, and no other Person has any ownership right, title, or interest therein.

U. The Acquisition Agreement is a valid and binding contract between the Debtors and Purchaser and shall be enforceable pursuant to its terms. The Acquisition Agreement and the Sale itself, and the consummation thereof shall be specifically enforceable against and binding upon (without posting any bond) the Debtors, the Foreign Representative in this Chapter 15 case, any chapter 7 or chapter 11 trustee appointed in any successor cases, and shall not be subject to rejection or avoidance by the foregoing parties or any other Person.

V. The Purchaser would not have entered into the Acquisition Agreement and would not consummate the Sale and related transactions contemplated thereby, thus adversely affecting the Debtors, their creditors, and other parties in interest, if the Sale of the Assets to the Purchaser was not free and clear of all liens, claims, encumbrances and other interests (other than Permitted Encumbrances), or if Purchaser would, or in the future could, be liable for any such claims, including, as applicable, certain liabilities related to the Business and Assets that will not be assumed by Purchaser, as described in the Acquisition Agreement.

W. A sale of the Assets other than one free and clear of all liens, claims encumbrances and other interests would yield substantially less value than the Sale; thus, the Sale free and clear of all liens, claims, encumbrances and other interests, in addition to all of the relief provided herein, is in the best interests of the Debtors, their creditors, and other parties in interest.

X. The interests of the Debtors' creditors in the United States are sufficiently protected.

Y. The relief granted herein is necessary and appropriate, in the interests of the public and international comity, consistent with the public policy of the United States, and warranted pursuant to section 1521(b) of the Bankruptcy Code.

Z. The CCAA Proceeding is a “foreign main proceeding” as that term is defined in section 1502(4) of the Bankruptcy Code, and the Foreign Representative is a “foreign representative” as that term is defined in section 101(24) of the Bankruptcy Code.

AA. The legal and factual bases set forth in the Motion and at the Sale Hearing establish just cause for the relief granted herein.

BB. Any and all findings of fact and conclusions of law announced by this Court at the Sale Hearing are incorporated herein.

ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED.
2. Notice of the Sale Hearing was fair and equitable under the circumstances and complied in all respects with section 102(1) of the Bankruptcy Code and Bankruptcy Rules 2002, 6004 and 6006.
3. The Canadian Sale Order is recognized in full and given full force and effect in the United States.
4. The Acquisition Agreement, the Sale pursuant to the terms of the Acquisition Agreement, the transfers and assignments of the Assets located within the United States on the terms set forth in the Acquisition Agreement, the Canadian Sale Order, this Order, all other transactions contemplated therein, the consummation of all transactions contemplated therein and all of the terms and conditions thereof are hereby approved and authorized pursuant to sections 105, 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code and applicable law. The

failure specifically to include any particular provision of the Acquisition Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Acquisition Agreement be authorized and approved in its entirety. The consideration provided by Purchaser under the Acquisition Agreement is fair and reasonable.

5. Pursuant to section 1521(b) of the Bankruptcy Code and the Canadian Sale Order, the distribution of the proceeds of the Sale is entrusted to the Monitor in the CCAA Proceeding.

6. All objections to the entry of this Order that have not been withdrawn, waived, or settled, or otherwise resolved pursuant to the terms hereof, are denied and overruled on the merits, with prejudice.

7. Pursuant to sections 105, 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, the Canadian Sale Order, and this Order, the Debtors, the Purchaser and the Foreign Representative (as well as their officers, employees and agents) are authorized to take any and all actions necessary or appropriate to: (a) consummate the Sale of the Assets to the Purchaser in accordance with the Acquisition Agreement, the Canadian Sale Order and this Order; (b) provide services in accordance with the Transition Services Agreement; (c) execute and perform in accordance with the Escrow Agreement; and (d) perform, consummate, implement and close fully the Acquisition Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the Acquisition Agreement and the Sale and to take such additional steps and all further actions as may be (i) reasonably requested by Purchaser for the purpose of assigning, transferring, granting, conveying and conferring to Purchaser, or reducing to possession, the Assets, or (ii) necessary or appropriate to the performance of the obligations contemplated by the Acquisition Agreement, all without further order of the Court.

8. All Persons that are currently in possession of some or all of the Assets located in the United States or are otherwise subject to the jurisdiction of this Court are hereby directed to surrender possession of such Assets to Purchaser on the Closing Date.

9. The fourteen-day stay provided for in Bankruptcy Rules 6004(h) and 6006(d) shall be, and hereby is, waived in connection with this Order.

Transfer of the Assets Free and Clear

10. Pursuant to sections 105(a), 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, on the date of closing pursuant to the terms of the Acquisition Agreement, the Assets shall be transferred and absolutely vest in the Purchaser, without further instrument of transfer or assignment, all rights, title, and interest of the Debtors to the Assets, and such transfer shall: (a) be a legal, valid, binding and effective transfer of the Assets to the Purchaser; (b) vest Purchaser with all right, title and interest of the Debtors in the Assets, and (c) be free and clear, other than Permitted Encumbrances, of any and all Claims, security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, pledges, options, warrants, trusts or deemed trusts (whether contractual, statutory, or otherwise), encumbrances, obligations, interests, liabilities, demands, guarantees, restrictions, contractual commitments, rights, including without limitation, rights of first refusal and rights of set-off, liens, executions, levies, penalties, charges, financial or monetary claims, adverse claims, or rights of use, puts or forced sale provisions exercisable as a consequence of or arising from the closing of the Sale, whether arising prior to or subsequent to the commencement of the Canadian Proceeding and these chapter 15 cases, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured, legal, equitable, possessory or otherwise, actual or threatened civil, criminal, administrative, regulatory, arbitral or investigative inquiry, action, complaint, suit, investigation, dispute, petition or proceeding by or

before any governmental authority or person at law or in equity whether imposed by agreement, understanding, law, equity or otherwise, and any claim or demand resulting therefrom.

11. Pursuant to sections 105(a), 363(f), 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, upon the closing of the Sale: (a) the Assets shall be sold, transferred, or otherwise conveyed to the respective Purchaser free and clear of all liens, claims, encumbrances and other interests, other than Permitted Encumbrances (as defined in the Acquisition Agreement); (b) no holder of a lien, claim, encumbrance or other interest against the Debtors shall interfere, and each and every holder of a lien, claim, encumbrance or other interest against the Debtors is enjoined from interfering, with the Purchaser's rights and title to or use and enjoyment of the Assets; and (c) the Acquisition Agreement, the Sale, and any instruments contemplated thereby shall be enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors or any successor thereof. All persons or entities holding liens, claims, encumbrances or other interests in, to or against the Assets are forever barred and enjoined from asserting such liens, claims, encumbrances or other interests against the Purchaser or its affiliates and their respective officers, directors, employees, managers, partners, members, financial advisors, attorneys, agents, and representatives and their respective affiliates, successors and assigns or such Assets from and after closing of the Sale. All liens and encumbrances relating to, accruing, or arising any time prior to the closing date of the sale shall attach to the proceeds generated from the sale of the Assets.

12. Each and every federal, state, and local governmental agency or department is authorized and directed to accept (and not impose any fee, charge, or tax in connection therewith for) any and all documents and instruments necessary or appropriate to consummate the Sale and other transactions contemplated by the Acquisition Agreement.

13. Effective as of Closing under the Acquisition Agreement, the Canadian Sale Order and this Order shall constitute for any and all purposes a full and complete general assignment, conveyance, and transfer of the Debtors' interests in the Assets to the Purchaser free and clear of all liens, claims, encumbrances and other interests.

14. Except as otherwise provided in the Acquisition Agreement, Purchaser and its successors and assigns shall have no liability for, and all Persons (and their respective successors and assigns) including, without limitation, all debt security holders, equity security holders, governmental, tax and regulatory authorities, lenders, employees, former employees, pension plans, multiemployer pension plans, labor unions, trade creditors and any other creditors holding Claims against the Debtors or the Assets, are hereby forever barred, estopped and permanently enjoined from asserting or pursuing any Claims, whether known or unknown as of the Closing Date, now existing or hereafter arising, whether fixed or contingent, whether derivatively, vicariously, as a transferee or successor or otherwise, of any kind, nature or character whatsoever, against Purchaser, its Affiliates, successors or assigns, its property or the Assets, including, without limitation, taking any of the following actions with respect to a Claim (other than an Assumed Liability): (a) commencing or continuing in any manner any action or other proceeding against Purchaser, its Affiliates, successors or assigns, assets or properties; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree, or order against Purchaser, its Affiliates, successors or assigns, assets, or properties; (c) creating, perfecting, or enforcing any Claims against Purchaser, its successors or assigns, assets or properties; (d) asserting a Claim as a setoff, right of subrogation or recoupment of any kind against any obligation due Purchaser or its successors or assigns; or (e) commencing or continuing any action in any manner or place that does not comply, or is inconsistent, with the

provisions of this Order or the agreements or actions contemplated or taken in respect thereof. No such Persons shall assert or pursue against Purchaser or its Affiliates, successors or assigns any such Claim.

15. This Order (a) shall be effective as a determination that, as of the Closing Date, all Claims, other than Permitted Encumbrances, have been unconditionally released, discharged and terminated as to Purchaser and the Assets, and that the conveyances and transfers described herein have been effected, and (b) is and shall be binding upon and govern the acts of all Persons, including all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal and local officials and all other Persons who may be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any lease; and each of the foregoing Persons is hereby directed to accept for filing any and all of the documents and instruments necessary and appropriate to consummate the transactions contemplated by the Acquisition Agreement.⁴

16. If any Person that has filed in any federal, state or local filing, recording, registry or other office located in the United States, financing statements, mortgages, mechanic's liens, *lis pendens* or other documents or agreements evidencing Claims against or in the Debtors or the Assets shall not have delivered to the Foreign Representative prior to the Closing Date, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all interests which the Person has with respect to the Debtors or the Assets or otherwise, then with regard to the Assets that are purchased by Purchaser pursuant to

⁴ For the avoidance of doubt, the provisions of section 1146(a) of the Bankruptcy Code do not apply to the Sale.

the Acquisition Agreement and this Order (a) the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the Person with respect to the Assets and (b) Purchaser is hereby authorized to file, register or otherwise record a certified copy of this Order, which, once filed, registered or otherwise recorded, shall constitute conclusive evidence of the release of all Claims against the Assets including, without limitation: (i) payment, satisfaction, and cancellation of record of Deed to Secure Debt and Assignment of Rents and Leases from Barrett Carpet Mills, Inc., a Georgia corporation, to Wells Fargo Capital Finance Corporation Canada, an Ontario corporation, dated August 6, 2013, filed for record August 14, 2013 at 1:23 p.m., recorded in Deed Book 5930, Page 225, Records of Whitfield County, Georgia; and (ii) termination of record of UCC Financing Statement No. 155-2013-0443 having Barrett Carpet Mills, Inc., as Debtor, and Wells Fargo Capital Finance Corporation Canada, as Secured Party, filed for record April 12, 2013 at 10:32 a.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia; as continued by UCC Financing Statement Amendment No. 155-2018-0012 having Barrett Carpet Mills Inc., as Debtor, and Wells Fargo Bank, National Association, as Secured Party, filed for record January 4, 2018 at 2:44 p.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia; as further continued by UCC Financing Statement Amendment No. 155-2018-0390 having Barrett Carpet Mills, Inc., as Debtor, and Wells Fargo Capital Finance Corporation Canada, as Secured Party, filed for record March 22, 2018 at 9:53 a.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia. Each and every federal, state or local government agency, department or office located in the United States is authorized to accept this Order for filing or recording in such government or agency's filing or recording system.

17. Purchaser is not and shall not be deemed to: (a) be a legal successor, or otherwise be deemed a successor to any of the Debtors; (b) have, *de facto* or otherwise, merged with or into any or all Debtors; or (c) be a mere continuation or substantial continuation of any or all Debtors or the enterprise or operations of any or all Debtors.

18. The transactions contemplated by the Acquisition Agreement are undertaken by Purchaser in good faith, as that term is used in section 363(m) of the Bankruptcy Code, and accordingly, the reversal or modification on appeal of the authorization provided herein of the Sale shall neither affect the validity of the Sale nor the transfer of the Assets to Purchaser, free and clear of Claims, unless such authorization is duly stayed before the Closing pending such appeal.

19. Neither the Debtors nor Purchaser has engaged in any conduct that would cause or permit the Acquisition Agreement to be avoided or costs and damages to be imposed under section 363(n) of the Bankruptcy Code.

20. Notwithstanding the provisions of Bankruptcy Rules 6004(h) and 6006(d) or any applicable provisions of the Bankruptcy Rules or Local Rules, this Order shall not be stayed after the entry hereof, but shall be effective and enforceable immediately upon entry, and the fourteen (14) day stay provided in Bankruptcy Rules 6004(h) and 6006(d) is hereby expressly waived and shall not apply. The Debtors, the Purchaser, and the Foreign Representative are not subject to any stay in the implementation, enforcement or realization of the relief granted in this Order. For the avoidance of doubt, the Debtors, the Purchaser, and the Foreign Representative may, in their discretion and without further delay, take any action and perform any act authorized under the Canadian Sale Order or this Order.

21. The terms and provisions of the Acquisition Agreement, the Canadian Sale Order, and this Order shall be binding in all respects upon, or shall inure to the benefit of, the Debtors, the Purchaser, the Foreign Representative, the Debtors' creditors, and all other parties in interest, and any successors of the Debtors, the Purchaser, the Foreign Representative, and the Debtors' creditors, including any foreign representative(s) of the Debtors, trustee(s), examiner(s) or receiver(s) appointed in any proceeding, including without limitation any proceeding under any chapter of the Bankruptcy Code, CCAA, or any other law, and all such terms and provisions shall likewise be binding on such foreign representative(s), trustee(s), examiner(s), or receiver(s) and shall not be subject to rejection or avoidance by the Debtors, their creditors, or any trustee(s), examiner(s) or receiver(s).

22. Subject to the terms and conditions of the Canadian Sale Order and the Acquisition Agreement, the Acquisition Agreement, and any related agreements, documents or other instruments, may be modified, amended or supplemented by the parties thereto, in a writing signed each party, and in accordance with the terms thereof, without further order of the Court; provided that any such modification, amendment or supplement does not materially change the terms of the Acquisition Agreement or any related agreements, documents or other instruments and is otherwise in accordance with the terms of the Canadian Sale Order.

23. No bulk sales law, or similar law of any state or other U.S. jurisdiction shall apply in any way to the transactions contemplated by the Acquisition Agreement, the Sale Motion or this Order.

24. The provisions of this Order and of the Acquisition Agreement are non-severable and mutually dependent.

Additional Provisions

25. The failure to include any particular provision of the Canadian Sale Order, the Acquisition Agreement, or any related agreements in this Order shall not diminish or impair the effectiveness of that provision, it being the intent of this Court that the Canadian Sale Order, the Acquisition Agreement, and any related agreements, with such amendments thereto as may be made by the parties in accordance with the Canadian Sale Order, this Order and the Acquisition Agreement be approved and authorized in their entirety.

26. Nothing in this Order shall be deemed to waive, release, extinguish or estop the Debtor or the Foreign Representative from asserting, or otherwise impair or diminish, any right (including, without limitation, any right of recoupment), claim, cause of action, defense, offset or counterclaim in respect of any asset that is not an Asset.

27. Other than as explicitly set forth herein, this Court shall retain jurisdiction with respect to any and all matters, claims, rights, or disputes arising from or related to the implementation or interpretation of this Order, including without limitation, enforcement of the injunctions contained herein as well as, in the United States and as to those Assets located in the United States to, among other things, (i) interpret, enforce and implement the terms and provisions the Acquisition Agreement, all amendments thereto, any waivers and consents thereunder (and of each of the agreements executed in connection therewith) and (ii) to adjudicate disputes related to the Acquisition Agreement (and such other related agreements, documents or other instruments).

Dated: Wilmington, Delaware
October __, 2018

THE HONORABLE KEVIN GROSS
UNITED STATES BANKRUPTCY JUDGE

Exhibit B

Redline of Revised Proposed Sale Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

-----X	:	
In re:	:	Chapter 15
	:	
Kraus Carpet Inc., <u>et al.</u> , ¹	:	Case No. 18-12057 (KG)
	:	
Debtors in a Foreign Proceeding.	:	Jointly Administered
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	:	<u>Re: D.I. 2, 9, 10, 21, 38 &</u>
-----X	:	

ORDER GRANTING MOTION OF FOREIGN REPRESENTATIVE PURSUANT TO SECTIONS 105(a), 363, 365, 1501, 1507, 1520, AND 1521 OF THE BANKRUPTCY CODE, AND BANKRUPTCY RULES 2002, 6004, 6006, AND 9014, FOR ENTRY OF AN ORDER (I) RECOGNIZING AND ENFORCING THE APPROVAL AND VESTING ORDER; (II) AUTHORIZING THE SALE OF THE DEBTORS’ TPS BUSINESS FREE AND CLEAR OF ANY AND ALL LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS; AND (III) GRANTING RELATED RELIEF

Upon the motion (the “Motion”)² of Kraus Carpet Inc. (the “Foreign Representative”), in its capacity as the authorized foreign representative of the above captioned debtors (the “Debtors”) in a Canadian proceeding (the “CCAA Proceeding”) under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36 (as amended, the “CCAA”) pending before the Ontario Superior Court of Justice (the “Canadian Court”), for entry of an order pursuant to sections 105(a) 363, 365, 1501, 1507, 1520, and 1521 of title 11 of the United States Code (the “Bankruptcy Code”), Rules 2002, 6004, 6006, and 9014 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and Rule 6004-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”): (a) recognizing the Sale Approval and Vesting Order entered by the Canadian Court

¹ The Debtors in these chapter 15 cases and the last four digits of each Debtor’s U.S. tax identification number or Canadian Business Number, as applicable, are as follows: Kraus USA Inc. (USA) (1024); Strudex Inc. (0906); Kraus Carpet Inc. (8687); Kraus Properties Inc. (1102); Kraus Canada Ltd. (1300); and Kraus Brands Inc. (8885). The Debtors’ mailing address for purposes of these chapter 15 cases is 65 Northfield Drive West, Waterloo, Ontario, Canada.

² Capitalized terms used herein but not otherwise defined have the meanings given to them in the applicable Acquisition Agreement (as defined below) or, if not defined in the Acquisition Agreement, the meanings given to them in the Motion.

(the “Canadian Sale Order”); (b) authorizing and approving the sale (the “Sale”) of the Debtors’ TPS Business (the “Assets”), pursuant to the terms and conditions set forth in (i) that certain Asset Purchase Agreement (the “Asset Purchase Agreement”) between Kraus Canada LP, Kraus Properties LP, ~~and~~ Kraus USA, Inc., and Kraus Carpet LP on the one hand and Q.E.P. Co., Inc. and Roberts Company Canada Ltd. (Q.E.P. Co., Inc. and Roberts Company Canada Ltd., individually and collectively, the “Purchaser”); on the other hand; and (ii) that certain Purchase and Sale Agreement (the “Real Estate Purchase Agreement”, together with the Asset Purchase Agreement, individually and collectively, the “Acquisition Agreement”) between Kraus USA, Inc., and Purchaser, in each case free and clear of liens, claims, encumbrances, and other interests, in each case free and clear of liens, claims, encumbrances, and other interests other than Permitted Encumbrances; and (c) granting certain relief related thereto; and upon the *Declaration of Christopher Emmott in Support of (A) Motion of Foreign Representative for Entry of Provisional and Final Orders Granting Recognition of Foreign Main Proceeding, and (B) Other First Day Relief* (the “Emmott Declaration”), and the *Declaration of Susan Mingie in Support of the Motion of Foreign Representative Pursuant to Sections 105(a), 353, 365, 1501, 1507, 1520, and 1521 of the Bankruptcy Code, and Bankruptcy Rules 2002, 6004, 6006, and 9014, for Entry of an Order (I) Recognizing and Enforcing the Approval and Vesting Order; (II) Authorizing the Sale of the Debtors’ TPS Business Free and Clear of Any and All Liens, Claims, Encumbrances, and Other Interests; and (III) Granting Related Relief* (the “Mingie Declaration”); and the arguments of counsel made, and the evidenced adduced, at a hearing before this Court (the “Sale Hearing”); and upon the record of the Sale Hearing and ~~these~~ the above-captioned chapter 15 cases, and after due deliberation thereon, and good cause appearing therefor, and in accordance with Bankruptcy Rule 7052, it is hereby

FOUND AND DETERMINED THAT³:

A. The Canadian Court has duly entered the Canadian Sale Order approving and authorizing the Debtors' execution of the [PurchaseAcquisition](#) Agreement and consummation of the Sale of the Assets.

B. This Court has jurisdiction and authority to hear and determine the Motion pursuant to 28 U.S.C. §§ 1334 and 157(b). Venue of these chapter 15 cases and the Motion in this Court and this District is proper under 28 U.S.C. § 1410.

C. Based on the affidavits of service filed with, and representations made to, this Court: (i) notice of the Motion, the Sale Hearing, and the Sale was proper, timely, adequate, and sufficient under the circumstances of these chapter 15 cases and these proceedings and complied with the various applicable requirements of the Bankruptcy Code and the Bankruptcy Rules; and (ii) no other or further notice of the Motion, the Sale Hearing, the Sale, or the entry of this Order is necessary or shall be required.

D. The Foreign Representative provided notice and a reasonable opportunity to object and be heard with respect to the Sale, the Motion, and the relief requested therein to the necessary parties in interest, including the following: (i) counsel to Wells Fargo Capital Finance Corporation Canada (the Debtors' prepetition senior secured lender); (ii) Red Ash Capital Partners II Limited Partnership (the Debtors' prepetition junior secured lender); (iii) any party known to hold or assert a lien on [any of](#) the Assets; (iv) counsel to the Debtors in the Canadian Proceeding on behalf of the Debtors; (v) the Office of the United States Trustee for the District of

³ [The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052 made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.](#)

Delaware; and (vi) ~~any party that filed a~~ all parties who have requested notice ~~of appearance~~ in ~~the~~ these chapter 15 cases: pursuant to Bankruptcy Rule 2002.

E. This Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a).

F. The relief granted herein is necessary and appropriate, is in the interest of the public, promotes international comity, is consistent with the public policy of the United States, is warranted pursuant to sections 105(a), 363(b), (f), (m) and (n), 365, 1501, 1514, 1520, and 1521 of the Bankruptcy Code, and will not cause any hardship to any parties in interest that is not outweighed by the benefits of the relief granted.

G. Based on information contained in the Motion, the Emmott Declaration, the Mingie Declaration, and the record made at the Sale Hearing, Deloitte Corporate Finance conducted a marketing process to solicit interest in the Assets and the sale process was non-collusive, duly noticed and provided a reasonable opportunity for other entities to make an offer to purchase the Assets. The Canadian Court authorized the Sale pursuant to the terms of the PurchaseAcquisition Agreement and entered the Canadian Sale Order. The Foreign Representative has recommended the Sale in accordance with the PurchaseAcquisition Agreement, and it is appropriate that the Assets be sold, transferred, assigned, and vested in the Purchaser on the terms set forth in the PurchaseAcquisition Agreement.

H. The ~~consideration provided by the Purchaser for the Assets under the Purchase Agreement constitutes the highest or otherwise best offers for the Assets.~~ Debtors entry into and performance under the Acquisition Agreement and related agreements (i) constitute a sound and reasonable exercise of the Debtors' business judgment, (ii) provide value to and are beneficial to the Debtors, and are in the best interests of the Debtors and their stakeholders, and (iii) are

reasonable and appropriate under the circumstances. Business justifications for the Sale include, but are not limited to, the following: (I) the Acquisition Agreement constitutes the highest and best offer received for the Assets; (II) the Acquisition Agreement presents the best opportunity to maximize the value of the Assets on a going concern basis and avoid decline and devaluation of the Assets; (III) unless the Sale and all of the other transactions contemplated by the Acquisition Agreement and related agreements are concluded expeditiously, as provided for pursuant to the Acquisition Agreement, recoveries to creditors may be diminished; and (IV) the value received for the Assets will be maximized through the sale pursuant to the Acquisition Agreement and related agreements.

I. The consideration provided by the Purchaser for the Assets under the ~~Purchase~~Acquisition Agreement constitutes fair consideration and reasonably equivalent value for the Assets under the Bankruptcy Code, the Uniform Fraudulent Transfer Act, the Uniform Fraudulent Conveyance Act, and the laws of the United States, any state, territory, possession thereof, or the District of Columbia.

J. No bulk sales law or any similar law of any state or other U.S. jurisdiction shall apply in any way to the Sale.

K. Purchaser is not, and will not be, a mere continuation, and is not holding itself out as a mere continuation, of any of the Debtors and there is no continuity between Purchaser and the Debtors. The Sale does not amount to a consolidation, merger or de facto merger of Purchaser and any of the Debtors.

L. ~~K.~~ Time is of the essence in consummating the Sale. To maximize the value of the Assets, it is essential that the Sale occur and be recognized and enforced in the United States promptly. The Foreign Representative on behalf of the Debtors has demonstrated compelling

circumstances and a good, sufficient, and sound business purpose and justification for the immediate approval and consummation of the Sale as contemplated by the Acquisition Agreement. Accordingly, there is cause to waive the stay that would otherwise be applicable under Bankruptcy Rules 6004(h) and 6006(d), and accordingly the transaction contemplated by the ~~Purchase~~Acquisition Agreement can be closed immediately upon entry of this Order.

M. ~~L.~~ Based upon information contained in the Motion, the Emmott Declaration, the Mingie Declaration, the other pleadings filed in the above-captioned cases, and the record made at the Sale Hearing, the ~~negotiations over the terms of the Purchase Agreement was conducted fairly, in good faith, and~~Acquisition Agreement and each of the transactions contemplated therein were negotiated, proposed and entered into by the Debtors and Purchaser in good faith, without collusion, ~~and thus the~~ and from arms'-length bargaining positions. Purchaser ~~has acted in~~ is a "good faith purchaser" within the meaning of section 363(m) of the Bankruptcy Code, ~~and none of~~ and, as such, is entitled to all the protections afforded thereby. Neither the Debtors, the Foreign Representative ~~or the,~~ nor Purchaser has engaged in any conduct that would cause or permit the ~~Purchase~~Acquisition Agreement or the consummation of the Sale to be avoided, or costs ~~or~~and damages to be imposed, under section 363(n) of the Bankruptcy Code. Purchaser is not an "insider" of any of the Debtors, as that term is defined in section 101 of the Bankruptcy Code, and no common identity of incorporators, directors, or controlling stockholders existed between Purchaser and the Debtors.

N. ~~M.~~ The ~~Purchase~~Acquisition Agreement was not entered into for the purpose of hindering, delaying, or defrauding present or future creditors of the ~~Debtor under the Bankruptcy Code or under the laws of the United States, any state, territory, possession thereof, or the District of Columbia.~~Debtors.

O. ~~N.~~ The Foreign Representative, on behalf of itself and the Debtors, may sell the Assets free and clear of all liens, claims (as defined in section 101(5) of the Bankruptcy Code), rights, liabilities, encumbrances and other interests of any kind or nature whatsoever against the Debtors or the Assets, other than Permitted Encumbrances, because; with respect to each creditor asserting any such interest, one or more of the standards set forth in section 363(f)(1)—(5) of the Bankruptcy Code has been satisfied.

P. The total consideration to be provided under the Acquisition Agreement reflects Purchaser's reliance on this Order to provide it, pursuant to sections 105(a) and 363(f) of the Bankruptcy Code, with title to and possession of the Assets free and clear of all Claims (including, without limitation, any potential derivative, vicarious, transferee or successor liability Claims), other than Permitted Encumbrances.

Q. The transfer of the Debtors' rights under the Transferred Contracts as and to the extent provided in the Canadian Sale Order is integral to the Acquisition Agreement, is in the best interests of the Debtors and represents the reasonable exercise of the Debtors' business judgment.

R. As of the filing of the Monitor's Certificate in the CCAA Proceeding and the delivery thereof to the Purchaser, the transfer of the Assets to Purchaser will be a legal, valid and effective transfer of the Assets, and will vest Purchaser with all right, title and interest of the Debtors in and to the Assets, free and clear of all Claims, other than the Permitted Encumbrances..

S. The Foreign Representative and Debtors (i) have full power and authority to execute the Acquisition Agreement and all other documents contemplated thereby, and the Sale has been duly and validly authorized by all necessary corporate action of the Debtors, (ii) have all

of power and authority necessary to consummate the transactions contemplated by the Acquisition Agreement, and (iii) upon entry of this Order, other than any consents identified in the Acquisition Agreement (including with respect to antitrust matters), need no consent or approval from any other Person to consummate the Sale.

T. The Debtors are the sole and rightful owners of the Assets, and no other Person has any ownership right, title, or interest therein.

U. The Acquisition Agreement is a valid and binding contract between the Debtors and Purchaser and shall be enforceable pursuant to its terms. The Acquisition Agreement and the Sale itself, and the consummation thereof shall be specifically enforceable against and binding upon (without posting any bond) the Debtors, the Foreign Representative in this Chapter 15 case, any chapter 7 or chapter 11 trustee appointed in any successor cases, and shall not be subject to rejection or avoidance by the foregoing parties or any other Person.

V. ~~O.~~—The Purchaser would not have entered into the ~~Purchase~~Acquisition Agreement and would not consummate the Sale and related transactions contemplated thereby, thus adversely affecting the Debtors, their creditors, and other parties in interest, if the Sale of the Assets to the Purchaser ~~as was~~ not free and clear of all liens, claims, ~~and~~ encumbrances and other interests (other than Permitted Encumbrances), or if Purchaser would, or in the future could, be liable for any such claims, including, as applicable, certain liabilities related to the Business and Assets that will not be assumed by Purchaser, as described in the Acquisition Agreement.

W. ~~P.~~—A sale of the Assets other than one free and clear of all liens, claims encumbrances and other interests would yield substantially less ~~or no~~ value than the Sale; thus, the Sale free and clear of all liens, claims, encumbrances and other interests, in addition to all of

the relief provided herein, is in the best interests of the Debtors, their creditors, and other parties in interest.

X. ~~Q.~~ The interests of the Debtors' creditors in the United States are sufficiently protected.

Y. ~~R.~~ The relief granted herein is necessary and appropriate, in the interests of the public and international comity, consistent with the public policy of the United States, and warranted pursuant to section 1521(b) of the Bankruptcy Code.

Z. The CCAA Proceeding is a "foreign main proceeding" as that term is defined in section 1502(4) of the Bankruptcy Code, and the Foreign Representative is a "foreign representative" as that term is defined in section 101(24) of the Bankruptcy Code.

AA. The legal and factual bases set forth in the Motion and at the Sale Hearing establish just cause for the relief granted herein.

BB. ~~S.~~ Any and all findings of fact and conclusions of law announced by this Court at the Sale Hearing are incorporated herein.

ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED ~~as set forth herein.~~
2. Notice of the Sale Hearing was fair and equitable under the circumstances and complied in all respects with section 102(1) of the Bankruptcy Code and Bankruptcy Rules 2002, 6004 and 6006.
3. ~~2.~~ The Canadian Sale Order is recognized in full and given full force and effect in the United States.
4. ~~3.~~ The Acquisition Agreement, the Sale pursuant to the terms of the ~~Purchase~~Acquisition Agreement ~~and,~~ the transfers and assignments of the Assets located within

the United States on the terms set forth in the ~~Purchase~~Acquisition Agreement ~~and~~, the Canadian Sale Order ~~are~~, this Order, all other transactions contemplated therein, the consummation of all transactions contemplated therein and all of the terms and conditions thereof are hereby approved and authorized pursuant to sections 105, 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code and applicable law. The failure specifically to include any particular provision of the Acquisition Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Acquisition Agreement be authorized and approved in its entirety. The consideration provided by Purchaser under the Acquisition Agreement is fair and reasonable.

5. ~~4.~~ Pursuant to section 1521(b) of the Bankruptcy Code and the Canadian Sale Order, the distribution of the proceeds of the Sale is entrusted to the ~~Foreign Representative~~Monitor in the CCAA Proceeding.

6. ~~5.~~ All objections to the entry of this Order that have not been withdrawn, waived, or settled, or otherwise resolved pursuant to the terms hereof, are denied and overruled on the merits, with prejudice.

7. ~~6.~~ Pursuant to sections 105, 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, ~~and to the extent permitted by~~ the Canadian Sale Order, and this Order, the Debtors, the Purchaser and the Foreign Representative (as well as their officers, employees and agents) are authorized to take any and all actions necessary or appropriate to: (a) consummate the Sale of the Assets to the Purchaser in accordance with the ~~Purchase~~Acquisition Agreement, the Canadian Sale Order and this Order; (b) provide services in accordance with the Transition Services Agreement; ~~and~~ (c) execute and perform in accordance with the Escrow Agreement; and (d) perform, consummate, implement and close fully the ~~Purchase~~Acquisition Agreement,

together with all additional instruments and documents that may be reasonably necessary or desirable to implement the ~~Purchase Agreement and the Sale.~~ Acquisition Agreement and the Sale and to take such additional steps and all further actions as may be (i) reasonably requested by Purchaser for the purpose of assigning, transferring, granting, conveying and conferring to Purchaser, or reducing to possession, the Assets, or (ii) necessary or appropriate to the performance of the obligations contemplated by the Acquisition Agreement, all without further order of the Court.

8. All Persons that are currently in possession of some or all of the Assets located in the United States or are otherwise subject to the jurisdiction of this Court are hereby directed to surrender possession of such Assets to Purchaser on the Closing Date.

9. ~~7.~~ The fourteen-day stay provided for in Bankruptcy Rules 6004(h) and 6006(d) shall be, and hereby is, waived in connection with this Order.

Transfer of the Assets Free and Clear

10. ~~8.~~ Pursuant to sections 105(a), 363, 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, ~~upon~~ on the date of closing ~~under~~ pursuant to the terms of the ~~Purchase~~ Acquisition Agreement, the Assets shall be transferred and absolutely vest in the Purchaser, without further instrument of transfer or assignment, ~~in the Purchaser~~ all rights, title, and interest of the Debtors to the Assets, and ~~there~~ such transfer shall: (a) be a legal, valid, binding and effective transfer of the Assets to the Purchaser; (b) vest Purchaser with all right, title and interest of the Debtors in the Assets, and (c) be free and clear, other than Permitted Encumbrances, of any and all Claims, security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, pledges, options, warrants, trusts or deemed trusts (whether contractual, statutory, or otherwise), encumbrances, obligations, ~~claims,~~ interests, liabilities, demands, guarantees, restrictions,

contractual commitments, rights, including without limitation, rights of first refusal and rights of set-off, liens, executions, levies, penalties, charges, financial or monetary claims, adverse claims, or rights of use, puts or forced sale provisions exercisable as a consequence of or arising from the closing of the Sale, whether arising prior to or subsequent to the commencement of the Canadian Proceeding and these chapter 15 cases, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured, legal, equitable, possessory or otherwise, actual or threatened civil, criminal, administrative, regulatory, arbitral or investigative inquiry, action, complaint, suit, investigation, dispute, petition or proceeding by or before any governmental authority or person at law or in equity whether imposed by agreement, understanding, law, equity or otherwise, and any claim or demand resulting therefrom.

11. ~~9.~~ Pursuant to sections 105(a), 363(f), 365, 1501, 1514, 1520 and 1521 of the Bankruptcy Code, upon the closing of the Sale: (a) the Assets shall be sold, transferred, or otherwise conveyed to the respective Purchaser free and clear of all liens, claims, encumbrances and other interests, other than Permitted Encumbrances (as defined in the [Purchase Acquisition Agreement](#)); (b) no holder of a lien, claim, encumbrance or other interest against the Debtors shall interfere, and each and every holder of a lien, claim, encumbrance or other interest against the Debtors is enjoined from interfering, with the Purchaser's rights and title to or use and enjoyment of the Assets; and (c) the [Purchase Acquisition Agreement](#), the Sale, and any instruments contemplated thereby shall be enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors or any successor thereof. All persons or entities holding liens, claims, encumbrances or other interests in, to or against the Assets are forever barred and enjoined from asserting such liens, claims, encumbrances or other interests against the Purchaser or its affiliates and their respective officers, directors, employees, managers, partners, members,

financial advisors, attorneys, agents, and representatives and their respective affiliates, successors and assigns or such Assets from and after closing of the Sale. All liens and encumbrances relating to, accruing, or arising any time prior to the closing date of the sale shall attach to the proceeds generated from the sale of the Assets.

12. ~~10.~~ Each and every federal, state, and local governmental agency or department is authorized and directed to accept (and not impose any fee, charge, or tax in connection therewith for) any and all documents and instruments necessary and/or appropriate to consummate the Sale ~~contemplated by the Purchase Agreement. 11. — Absent a stay pending appeal, no person shall take any action to prevent or enjoin or otherwise interfere with the Assets or consummation of the Sale contemplated in the Purchase~~ and other transactions contemplated by the Acquisition Agreement.

13. ~~12.~~ Effective as of Closing under the ~~Purchase~~Acquisition Agreement, the Canadian Sale Order and this Order shall constitute for any and all purposes a full and complete general assignment, conveyance, and transfer of the Debtors' interests in the Assets to the Purchaser free and clear of all liens, claims, encumbrances and other interests.

Additional Provisions

14. Except as otherwise provided in the Acquisition Agreement, Purchaser and its successors and assigns shall have no liability for, and all Persons (and their respective successors and assigns) including, without limitation, all debt security holders, equity security holders, governmental, tax and regulatory authorities, lenders, employees, former employees, pension plans, multiemployer pension plans, labor unions, trade creditors and any other creditors holding Claims against the Debtors or the Assets, are hereby forever barred, estopped and permanently enjoined from asserting or pursuing any Claims, whether known or unknown as of the Closing

Date, now existing or hereafter arising, whether fixed or contingent, whether derivatively, vicariously, as a transferee or successor or otherwise, of any kind, nature or character whatsoever, against Purchaser, its Affiliates, successors or assigns, its property or the Assets, including, without limitation, taking any of the following actions with respect to a Claim (other than an Assumed Liability): (a) commencing or continuing in any manner any action or other proceeding against Purchaser, its Affiliates, successors or assigns, assets or properties; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree, or order against Purchaser, its Affiliates, successors or assigns, assets, or properties; (c) creating, perfecting, or enforcing any Claims against Purchaser, its successors or assigns, assets or properties; (d) asserting a Claim as a setoff, right of subrogation or recoupment of any kind against any obligation due Purchaser or its successors or assigns; or (e) commencing or continuing any action in any manner or place that does not comply, or is inconsistent, with the provisions of this Order or the agreements or actions contemplated or taken in respect thereof. No such Persons shall assert or pursue against Purchaser or its Affiliates, successors or assigns any such Claim.

15. This Order (a) shall be effective as a determination that, as of the Closing Date, all Claims, other than Permitted Encumbrances, have been unconditionally released, discharged and terminated as to Purchaser and the Assets, and that the conveyances and transfers described herein have been effected, and (b) is and shall be binding upon and govern the acts of all Persons, including all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal and local officials and all other Persons who may be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or

state of title in or to any lease; and each of the foregoing Persons is hereby directed to accept for filing any and all of the documents and instruments necessary and appropriate to consummate the transactions contemplated by the Acquisition Agreement.⁴

16. If any Person that has filed in any federal, state or local filing, recording, registry or other office located in the United States, financing statements, mortgages, mechanic's liens, *lis pendens* or other documents or agreements evidencing Claims against or in the Debtors or the Assets shall not have delivered to the Foreign Representative prior to the Closing Date, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all interests which the Person has with respect to the Debtors or the Assets or otherwise, then with regard to the Assets that are purchased by Purchaser pursuant to the Acquisition Agreement and this Order (a) the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the Person with respect to the Assets and (b) Purchaser is hereby authorized to file, register or otherwise record a certified copy of this Order, which, once filed, registered or otherwise recorded, shall constitute conclusive evidence of the release of all Claims against the Assets including, without limitation: (i) payment, satisfaction, and cancellation of record of Deed to Secure Debt and Assignment of Rents and Leases from Barrett Carpet Mills, Inc., a Georgia corporation, to Wells Fargo Capital Finance Corporation Canada, an Ontario corporation, dated August 6, 2013, filed for record August 14, 2013 at 1:23 p.m., recorded in Deed Book 5930, Page 225, Records of Whitfield County, Georgia; and (ii) termination of record of UCC Financing Statement No. 155-2013-0443 having Barrett Carpet Mills, Inc., as Debtor, and Wells Fargo Capital Finance Corporation Canada, as Secured Party, filed for record April 12, 2013 at

⁴ For the avoidance of doubt, the provisions of section 1146(a) of the Bankruptcy Code do not apply to the Sale.

10:32 a.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia; as continued by UCC Financing Statement Amendment No. 155-2018-0012 having Barrett Carpet Mills Inc., as Debtor, and Wells Fargo Bank, National Association, as Secured Party, filed for record January 4, 2018 at 2:44 p.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia; as further continued by UCC Financing Statement Amendment No. 155-2018-0390 having Barrett Carpet Mills, Inc., as Debtor, and Wells Fargo Capital Finance Corporation Canada, as Secured Party, filed for record March 22, 2018 at 9:53 a.m. in Whitfield County, Georgia, and entered in the Central Indexing System of Georgia. Each and every federal, state or local government agency, department or office located in the United States is authorized to accept this Order for filing or recording in such government or agency's filing or recording system.

17. Purchaser is not and shall not be deemed to: (a) be a legal successor, or otherwise be deemed a successor to any of the Debtors; (b) have, *de facto* or otherwise, merged with or into any or all Debtors; or (c) be a mere continuation or substantial continuation of any or all Debtors or the enterprise or operations of any or all Debtors.

18. ~~13.~~The transactions contemplated by the Acquisition Agreement are undertaken by Purchaser, as a purchaser in good faith within the meaning of, as that term is used in section 363(m) of the Bankruptcy Code, shall be entitled to all of the protections of section 363(m) of the Bankruptcy Code. The and accordingly, the reversal or modification on appeal of the authorization provided herein to consummate of the Sale shall not neither affect the validity and full force and effect of the Sale nor the transfer of the Assets to Purchaser, free and clear of Claims, unless such authorization is duly stayed before the Closing pending such appeal.

19. Neither the Debtors nor Purchaser has engaged in any conduct that would cause or permit the Acquisition Agreement to be avoided or costs and damages to be imposed under section 363(n) of the Bankruptcy Code.

20. Notwithstanding the provisions of Bankruptcy Rules 6004(h) and 6006(d) or any applicable provisions of the Bankruptcy Rules or Local Rules, this Order shall not be stayed after the entry hereof, but shall be effective and enforceable immediately upon entry, and the fourteen (14) day stay provided in Bankruptcy Rules 6004(h) and 6006(d) is hereby expressly waived and shall not apply. The Debtors, the Purchaser, and the Foreign Representative are not subject to any stay in the implementation, enforcement or realization of the relief granted in this Order. For the avoidance of doubt, the Debtors, the Purchaser, and the Foreign Representative may, in their discretion and without further delay, take any action and perform any act authorized under the Canadian Sale Order or this Order.

21. 14.—The terms and provisions of the ~~Purchase~~Acquisition Agreement, the Canadian Sale Order, and this Order shall be binding ~~on and~~in all respects upon, or shall inure to the benefit of, the Debtors, the Purchaser, the Foreign Representative, the Debtors' creditors, and all other parties in interest, and any successors of the Debtors, the Purchaser, the Foreign Representative, and the Debtors' creditors, including any foreign representative(s) of the Debtors, trustee(s), examiner(s) or receiver(s) appointed in ~~these chapter 15 cases or~~any proceeding, including without limitation any proceeding under any chapter of the Bankruptcy Code, CCAA, or any other law, and all such terms and provisions shall likewise be binding on such foreign representative(s), trustee(s), examiner(s), or receiver(s) and shall not be subject to rejection or avoidance by the Debtors, ~~its~~their creditors, or any trustee(s), examiner(s) or receiver(s).

22. ~~15.~~ Subject to the terms and conditions of the Canadian Sale Order and the ~~PurchaseAcquisition~~ Agreement, ~~provisions of the PurchaseAcquisition~~ Agreement, and any related agreements, documents or other instruments, may be ~~waived~~, modified, amended, or supplemented by ~~agreement among the Debtors and the Purchaser~~the parties thereto, in a writing signed ~~by the Debtors and the Purchaser~~each party, and in accordance with the terms thereof, without further ~~action or order of this Court~~order of the Court; provided that any such modification, amendment or supplement does not materially change the terms of the Acquisition Agreement or any related agreements, documents or other instruments and is otherwise in accordance with the terms of the Canadian Sale Order.

23. No bulk sales law, or similar law of any state or other U.S. jurisdiction shall apply in any way to the transactions contemplated by the Acquisition Agreement, the Sale Motion or this Order.

24. The provisions of this Order and of the Acquisition Agreement are non-severable and mutually dependent.

Additional Provisions

25. ~~16.~~ The failure to include any particular provision of the Canadian Sale Order, the ~~PurchaseAcquisition~~ Agreement, or any related agreements in this Order shall not diminish or impair the effectiveness of that provision, it being the intent of this Court that the Canadian Sale Order, the ~~PurchaseAcquisition~~ Agreement, and any related agreements, with such amendments thereto as may be made by the parties in accordance with the Canadian Sale Order, this Order and the ~~PurchaseAcquisition~~ Agreement be approved and authorized in their entirety.

~~17. — Notwithstanding any provision in the Bankruptcy Rules to the contrary: (a) the terms of the this Order shall be immediately effective and enforceable upon its entry; (b) the~~

~~Debtors, the Purchaser, and the Foreign Representative are not subject to any stay in the implementation, enforcement or realization of the relief granted in this Order; and (c) the Debtors, the Purchaser, and the Foreign Representative may, in their discretion and without further delay, take any action and perform any act authorized under the Canadian Sale Order or this Order.~~

26. ~~18.~~ Nothing in this Order shall be deemed to waive, release, extinguish or estop the Debtor or the Foreign Representative from asserting, or otherwise impair or diminish, any right (including, without limitation, any right of recoupment), claim, cause of action, defense, offset or counterclaim in respect of any asset that is not an Asset.

27. ~~19.~~ Other than as explicitly set forth herein, this Court shall retain jurisdiction with respect to any and all matters, claims, rights, or disputes arising from or related to the implementation or interpretation of this Order, including without limitation, enforcement of the injunctions contained herein as well as, in the United States and as to those Assets located in the United States to, among other things, (i) interpret, enforce and implement the terms and provisions the Acquisition Agreement, all amendments thereto, any waivers and consents thereunder (and of each of the agreements executed in connection therewith) and (ii) to adjudicate disputes related to the Acquisition Agreement (and such other related agreements, documents or other instruments).

Dated: _____, 2018

Wilmington, Delaware

October _____, 2018

THE HONORABLE KEVIN GROSS

UNITED STATES BANKRUPTCY JUDGE

Appendix "H"
Casey Affidavit

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC.,
KRAUS PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.

Applicants

AFFIDAVIT OF PAUL CASEY
(Sworn October 3, 2018)

I, Paul Casey, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND**

SAY:

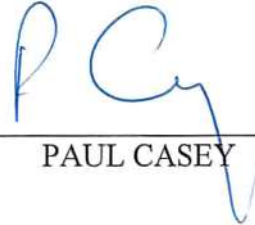
1. I am a Senior Vice-President of Deloitte Restructuring Inc. ("**Deloitte**"), in its capacity as Court-appointed Monitor for Kraus Brands Inc., Kraus Canada Ltd., Kraus Carpet Inc., Kraus Properties Inc., Kraus USA Inc., and Strudex Inc. (collectively, the "Applicants"), and as such, have knowledge of the matters to hereinafter deposed to.
2. Attached hereto as **Exhibit "A"** is a true copy of the invoice issued to the Applicants by Deloitte for fees and disbursements incurred by Deloitte in the course of the proceedings for the period from September 11, 2018 to September 21, 2018. The total fees charged by Deloitte during this period were \$104,307.50, plus disbursements of \$9,616.63 and Harmonized Sales Tax (HST) in the amount of \$14,810.14 for a total of \$128,734.27.
3. Accordingly, I verily believe that the total fees, disbursements and HST of Deloitte in its capacity as CCAA Monitor of the Applicants for this period are \$128,734.27.

4. Attached hereto as **Exhibit "B"** is Appendix 1 of invoice #8000243996, summarizing the total billable hours charged, the total fees charged and the billing rates of each of the professionals.
5. To the best of my knowledge, the rates charged by Deloitte throughout the course of this proceeding are comparable to those charged by other firms in Toronto for the provision of similar services.
6. The hourly billing rates outlined in in Exhibit "B" to this affidavit are comparable to the hourly rates charged by Deloitte for services rendered in similar proceedings.
7. I make the affidavit in support of a motion by the Applicants for, among other things, approval of the fees and disbursements of the Monitor.

SWORN BEFORE ME at the City of Toronto this
3rd day of October, 2018.



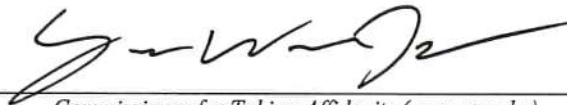
A Commissioner for taking Affidavits (or as may be)



PAUL CASEY

Scott William Tinney, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 21, 2020.

This is Exhibit "A" referred to in the Affidavit of Paul Casey sworn October 3, 2018



Commissioner for Taking Affidavits (or as may be)

Scott William Tinney, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 21, 2020.



Invoice 8000243996

Deloitte Restructuring Inc.

Bay Adelaide Centre
8 Adelaide Street West, Suite 200
Toronto ON M5H 0A9

ATTN: Messrs. Chris Emmott and Matthew Holt
Kraus Carpet
65 Northfield Dr W
Waterloo ON N2L 0A8
Canada

Tel: (416) 601-6150
Fax: (416) 601-6151
www.deloitte.ca

Date: September 27, 2018
Client No.: 1168189
WBS#: HIL00047
Engagement Partner: Paul Casey
HST Registration: 133245290RT0001

For professional services rendered

Fees

For work performed in Canada from September 11, 2018 to September 21 2018 in connection with the appointment of Deloitte Restructuring Inc. by the Ontario Superior Court of Justice [Commercial List] as Monitor of the Kraus Group.

Please see the attached appendices for details.

HST applicable 104,307.50

Expense

Mailing and Postage

HST applicable 2,315.11

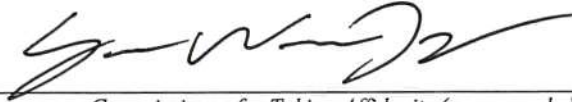
Administrative Expense 7,301.52

Sales Tax

HST at 13.00% 14,810.14

Total Amount Due (CAD) 128,734.27

This is Exhibit "B" referred to in the Affidavit of Paul Casey sworn October 3, 2018

A handwritten signature in black ink, appearing to read "S. W. Tinney", written over a horizontal line.

Commissioner for Taking Affidavits (or as may be)

Scott William Tinney, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 21, 2020.



Appendix # 1

Summary of Fees

Professional	Position	Hours	Rate	Fees
Casey, Paul	Partner	23.0	\$700	\$ 16,100.00
Sleeth, Jordan	Partner	5.8	\$700	4,060.00
Ambachtsheer, Todd	Senior Manager	16.0	\$525	8,400.00
Koroneos, Anna	Senior Manager	3.9	\$525	2,047.50
Page, Graham	Senior Manager	74.0	\$525	38,850.00
Greenbaum, Stacey	Manager	25.0	\$425	10,625.00
Chu, Jonathan	Senior	24.5	\$325	7,962.50
Watson, Devin	Analyst	64.0	\$225	14,400.00
Brown, Rose	Consultant	14.9	\$125	1,862.50
Total Hours and Professional Fees		251.1		104,307.50
Expenses				
Mailing and Postage				2,315.11
Total Fees and Expenses				<u>106,622.61</u>



Appendix # 2

Date	Professional	Hours	Narrative
9/11/2018	Ambachtsheer, Todd	8.0	Attend Kraus premises; deal with employee issues; review of plans; preparation of statutory notices.
9/11/2018	Brown, Rose	1.3	Website: update text and documents; set up estate on Ascend.
9/11/2018	Casey, Paul	8.0	Prepare for and attend Ontario Superior Court for CCAA application motion; meetings and discussions Hilco, Canadian and US counsel; review Notice of Motion for Approval and Vesting order; attend on site at Waterloo Premises. Meeting senior management; site tour; discussions with G. Page and team re First Report; draft outline; pre-filing TPS business payments; media emails; U.S. Counsel.
9/11/2018	Chu, Jonathan	6.0	Onsite attendance; review of pre-filing documentation; data room management; review of cash flow statements with Company.
9/11/2018	Greenbaum, Stacey	5.0	Onsite at client, meetings with Kraus management.
9/11/2018	Page, Graham	9.0	Attendance in court to obtain the Initial Order; once received, attendance in Waterloo at the Kraus Headquarters; discussions with management; tour of plant. discussions with employees and suppliers.
9/11/2018	Watson, Devin	8.0	On site in Waterloo: brief by the company and meet with key company stakeholders; fill out Form 1 for the OSB; and create a bucketed list for all current payables.
9/12/2018	Ambachtsheer, Todd	8.0	Attend Kraus premises; deal with employee issues; review of plans; preparation of statutory notices.
9/12/2018	Chu, Jonathan	8.0	Onsite attendance; review Company cash flow statements and supporting documentation; meetings with Hilco and Company on outstanding cheques and planned disbursements.
9/12/2018	Greenbaum, Stacey	8.0	Onsite at client, prepare first monitor's report; notice to creditors & list of creditors preparation.
9/12/2018	Koroneos, Anna	1.2	With OSB on CCAA filing; with T. Ambachtsheer on Form 1 and filing with OSB; upload documents and file Form 1; call to OSB on contact to change to P. Casey.
9/12/2018	Page, Graham	8.5	Attendance in Waterloo: discussions with management, employees and suppliers; walk through of cash reporting, forecasting models, disbursement reviews, outstanding cheque reviews, environmental concerns and strategy for realization of inventory; first report.
9/12/2018	Watson, Devin	4.5	On site in Waterloo: meet with the head of Human Resources (Michelle) to discuss any issues, meet with union members to explain the current situation and our role, and meet with Hugh Whitcomb (HC Capital).
9/12/2018	Sleeth, Jorden	1.3	Review notice to creditors and liaise with G. Page re: same, revise notice and circulate; call with T. Ambachtsheer re: union vacation, recall rules in CCAA.
9/13/2018	Brown, Rose	7.5	Mailing; update excel spreadsheets and review sheet for duplicate listed creditors and then prepare labels; label and stuff envelopes; update website page with text and document.

Date	Professional	Hours	Narrative
9/13/2018	Casey, Paul	0.1	Email regarding U.S. Counsel; other.
9/13/2018	Chu, Jonathan	8.0	Onsite attendance; correspondence with KUSA controller; review of KCAN and KUSA cash flow statements with Company; reconciliation to bank statements; report drafting; create schedule of disbursements.
9/13/2018	Greenbaum, Stacey	8.0	Onsite at client, prepare first monitor's report; notice to creditors and list of creditors preparation.
9/13/2018	Koroneos, Anna	2.0	Work on uploading form 2 information; telephone discussion with G. Page and emails to G. Page and T. Ambachtsheer on information listed; with OSB on filing.
9/13/2018	Page, Graham	10.0	Attendance in Waterloo: discussions with management, employees and suppliers; walk through of disbursement reviews, outstanding cheque reviews, environmental concerns and strategy for realization of inventory; first report writing.
9/13/2018	Watson, Devin	8.0	On site at Waterloo: meet with Dave l'Anson to discuss the cash flow process; tie out the consolidated cash flow to the bank statement; read through US Filing report and prepare summary; read through draft of monitor report.
9/13/2018	Sleeth, Jordan	3.5	Review escrow agreement, discuss same with G. Page and counsel; review draft monitor's report and provide comments to G. Page.
9/14/2018	Brown, Rose	1.2	Mailing to creditors: complete labeling and stuff envelope to creditors; update website; sett up folders on Q Drive.
9/14/2018	Chu, Jonathan	2.5	Document employee addresses; data room management; review consolidated cash flow statements and reconcile to supporting documentation; finalize disbursement schedule and send to GP.
9/14/2018	Greenbaum, Stacey	4.0	Draft first monitor's report; finalize list of creditors and mail out of notice to creditors.
9/14/2018	Koroneos, Anna	0.7	Update form 2 sign and upload to OSB site; review of email from OSB and check OSB site for update on Kraus CCAA.
9/14/2018	Page, Graham	4.5	Write the first report.
9/14/2018	Watson, Devin	8.0	Review the entire cash flow process and develop steps to pull the information into a reporting format.
9/14/2018	Sleeth, Jordan	1.0	First monitor's report: review revised report, various discussions with G. Page re: same.
9/15/2018	Page, Graham	1.0	Discussions with counsel and Deloitte regarding first monitors report.
9/16/2018	Casey, Paul	2.0	Review of Monitors First Report and comments to group; emails G. Page regarding open points.
9/16/2018	Page, Graham	4.0	Edits and discussions related to the first monitors report
9/17/2018	Brown, Rose	1.3	Complete additional mailing to employees; update website
9/17/2018	Casey, Paul	1.0	Communications from prospective purchases; meetings with management regarding various; attend status call with media advisors.
9/17/2018	Casey, Paul	6.5	Attendance in Waterloo for on-site monitoring activities; finalize and issue Monitor's First Report; review Emmott Affidavit TSA; other application materials for QEP sale, Dalton, amendments to Initial Order for pre-filing payments.

Date	Professional	Hours	Narrative
9/17/2018	Page, Graham	8.0	On site in Waterloo; edits to the first monitors report; discussions regarding employees, suppliers and inventory.
9/17/2018	Watson, Devin	8.0	On site in Waterloo: return emails and phone calls from creditors and employees; review bank statements from the prior week and analyze total disbursements per business unit.
9/18/2018	Brown, Rose	1.5	Review creditor list and prepare spreadsheet for uploading into Ascend.
9/18/2018	Casey, Paul	1.0	Email Wells Fargo regarding cash flow forecasting; execute US retention letter and email; email from US creditor and Mississauga landlord.
9/18/2018	Casey, Paul	2.0	Prepare for and attend at Superior Court for Approval of QEP Sale and amendments to initial order; discussions G. Page regarding status of Cash Flow review.
9/18/2018	Page, Graham	4.0	Discussions with HR and suppliers; review of cash flow documentation.
9/18/2018	Watson, Devin	4.5	On in Waterloo: return emails and phone calls from creditors and employees; update cash flow reporting template and analyze inter-company transactions.
9/19/2018	Brown, Rose	1.8	Prepare and Upload creditor list into Ascend for AP and employees; set up folder for banking; scan and save OSB Forms to Q Drive; organize hardcopy file.
9/19/2018	Casey, Paul	1.5	Emails and telephone calls G. Page regarding cash flow monitoring and other CCAA activities; review issued orders and assess monitoring requirements.
9/19/2018	Page, Graham	11.5	On site in Waterloo 8am to 8pm, Additional work from office 10pm-12pm; discussions with management; discussions with creditors and other ad hoc requests; review of court materials; review of cash flow model; creation of bank cash model.
9/19/2018	Watson, Devin	10.0	At client site in Waterloo: set up cash flow and variance model; obtain and review internal cash flow prepared by Kraus. Detailed discussions with Dave I. at Kraus relating to cash flow process. Determining strategy to utilize Kraus cash flow model to reduce manual review of bank statement.
9/20/2018	Brown, Rose	0.3	Estate administration: complete Affidavit of mailing, arrange for signing, scan and save on Q Drive.
9/20/2018	Casey, Paul	0.5	Conference call with onsite team regarding cash flow monitoring, supplier payments, other going concern activities.
9/20/2018	Page, Graham	10.5	On site in Waterloo 8am to 8pm; discussions with management; discussions with creditors and other ad hoc requests; review of cash flow model; creation of bank cash model; review of cash transactions, outstanding cheques and discussions with management.
9/20/2018	Watson, Devin	9.0	At client site in Waterloo: Review of bank receipts and disbursements from the bank statement to the kraus cash flow model; assist in the creation of the final deliverable for week one cash flow review with G. Page.
9/21/2018	Casey, Paul	0.4	Status call with G. Page; discuss open questions on forecast and results; US counsel retention letter.
9/21/2018	Page, Graham	3.0	Update with P. Casey; review of 13 week cash flow model compared with prior versions; other ad hoc requests, matters.
9/21/2018	Watson, Devin	4.0	Respond to creditors and suppliers who contact Deloitte through our internal Kraus mailbox.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36,
AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KRAUS BRANDS
INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS PROPERTIES INC., KRAUS USA
INC., and STRUDEX INC.

Court File No.: CV-18-604759-00CL

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

Proceeding commenced at Toronto

**AFFIDAVIT OF PAUL CASEY
(Sworn October 3, 2018)**

MILLER THOMSON LLP

Scotia Plaza
40 King Street West, Suite 5800
P.O. Box 1011
Toronto, ON Canada M5H 3S1

Gregory Azeff LSUC#: 45324C
gazeff@millerthomson.com
Tel: 416.595.2660
Fax: 416.595.8695

Lawyers for the Court- Appointed Monitor,
Deloitte Restructuring Inc.

Appendix "I"
Stoica Affidavit

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC.,
KRAUS PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.

Applicant

AFFIDAVIT OF ALINA STOICA
(Sworn October 3, 2018)

I, **Alina Stoica**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND**

SAY:

1. I am an assistant with the law firm Miller Thomson LLP ("**MT**"), lawyers for Deloitte Restructuring Inc. ("**Deloitte**") in its capacity as Court-appointed Monitor of Kraus Group and not in its personal capacity, and as such, have knowledge of the matters to which I hereinafter depose.
2. Attached hereto as **Exhibit "A"** is a true copy of the invoices issued to Deloitte by MT for fees and disbursements incurred by MT in the course of the proceedings between August 30, 2018 and September 30, 2018. The total fees charged by MT during that period were \$38,520.50, plus Harmonized Sales Tax (HST) in the amount of \$5,007.67 for a total of \$43,528.17.

3. Accordingly, I verily believe that the total fees, disbursements and HST as at the date of the within motion are \$43,528.17.
4. Attached hereto as **Exhibit "B"** is a schedule summarizing each invoice in Exhibit "A", the total billable hours charged per invoice, the total fees charged per invoice and the average hourly rate charged per invoice.
5. Attached hereto as **Exhibit "C"** is a schedule summarizing the respective years of call and billing rates of each of the lawyers at MT who acted for Deloitte.
6. To the best of my knowledge, the rates charged by MT throughout the course of this proceeding are comparable to those charged by other law firms in Toronto for the provision of similar services.
7. The hourly billing rates outlined in Exhibit "C" to this affidavit are comparable to the hourly rates charged by MT for services rendered in similar proceedings.
8. I make the affidavit in support of a motion by the Applicants for, among other things, approval of the fees and disbursements of the Monitor's counsel.

SWORN BEFORE ME at the City of Toronto this
3rd day of October, 2018.

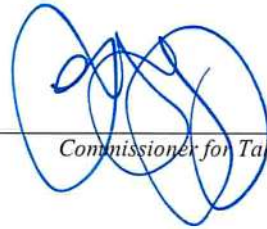


A Commissioner for taking Affidavits (or as may be)



ALINA STOICA

This is Exhibit "A" referred to in the Affidavit of Alina Stoica sworn October 3, 2018.

A handwritten signature in blue ink, consisting of several overlapping loops and curves, positioned above a horizontal line.

Commissioner for Taking Affidavits (or as may be)



MILLER THOMSON LLP
SCOTIA PLAZA
40 KING STREET WEST, SUITE 5800
P.O. BOX 1011
TORONTO, ON M5H 3S1
CANADA

T 416.595.8500
F 416.595.8695

MILLERTHOMSON.COM

Account Summary and Remittance Form

September 30, 2018

Invoice Number 3236021

Deloitte Restructuring Inc

Re: CCAA Kraus Canada
Our File No. 0235958.0001

Fees:	\$38,520.50
Ontario HST 13% (R119440766)	\$5,007.67
Total Amount Due	\$43,528.17



MILLER THOMSON
AVOCATS | LAWYERS

MILLER THOMSON LLP
SCOTIA PLAZA
40 KING STREET WEST, SUITE 5800
P.O. BOX 1011
TORONTO, ON M5H 3S1
CANADA

T 416.595.8500
F 416.595.8695

MILLERTHOMSON.COM

September 30, 2018

Invoice Number 3236021

Deloitte Restructuring Inc

To Professional Services Rendered in connection with the following matter(s) including:

Re: CCAA Kraus Canada
Our File No. 0235958.0001

Date	Initials	Description	Hours
08/30/2018	GRA	Attend conference call regarding new matter; Multiple meetings and discussions with S. De Caria regarding new matter; research regarding company;	1.20
08/31/2018	GRA	Review and revise draft Application materials; Discussion with S. De Caria regarding materials;	1.30
09/01/2018	GRA	Review and revise draft Pre-Filing Report and compare issues to draft Application materials; Forward to client;	0.70
09/03/2018	GRA	Review and consider changes to Report; Discussion with S. De Caria;	0.40
09/04/2018	SDC	Conference call with Deloitte, Cassels Brock, Hilco regarding status update on CCAA; review Affidavit and G. Azeff comments; email to Cassels Brock regarding comments to Affidavit; review Draft Pre-Filing Report; revisions and update to Pre-Filing Report; email to G. Azeff and Deloitte regarding comments and revisions to Draft Pre-Filing Report; various email exchanges with G. Page regarding Pre-Filing Report; review email and comments to Pre-Filing Report; revise and update Report; email to all counsel regarding Pre-Filing Report; telephone call with E. Craddock regarding	4.20

Please return the Account Summary and Remittance Form with your payment.

Terms: Accounts due when rendered. Interest at the rate of 12.0% per annum will be charged on accounts overdue 30 days or more. Any disbursements not posted to your account on the date of this account will be billed later.



Date	Initials	Description	Hours
		Affidavit; telephone call with G. Page regarding Affidavit and Report;	
09/04/2018	GRA	Conference call with company counsel and Hilco; Meet with S. De Caria regarding mandate; Review S. De Caria's markup of report; Review and respond to correspondence;	0.90
09/05/2018	SDC	Telephone conference call with Cassels Brock, Deloitte, and Company regarding status update; attend at 930 appointment before Justice Penny; telephone call with E. Craddock regarding affidavit; email comments re: affidavit; telephone call with client; various email exchanges regarding Pre-Filing Report and Affidavit and application materials;	1.80
09/05/2018	GRA	Review and respond to correspondence; Conference call with all parties; Prepare for, travel to and attend chambers attendance before Penny J.; Multiple telephone calls with various parties; Review and comment on US documents; Review and comment on draft Vesting Order; Multiple discussions with S. De Caria regarding various tasks;	4.10
09/06/2018	GRA	Review, consider and respond to correspondence; Review and revise Notice of Motion, Notice of Application and Affidavit; Review and revise draft Monitor's Report; Multiple conference calls with company's counsel; Multiple calls with client; Conference call with US counsel; Multiple discussions with S. De Caria regarding items to complete;	3.80
09/07/2018	SDC	Review email from client regarding appendixes to Pre-Filing Report; email response and email exchange with S. Massie; review Monitor's consent; attend to various email exchanges and matters related to CCAA application, including review of and revisions Pre-Filing report and comments to report; email exchanges and phone calls with client;	1.00
09/07/2018	GRA	Review and respond to correspondence; Multiple meetings with S. De Caria regarding status and tasks; Multiple discussions with L. Ellis and D. Ward; Telephone call with P. Casey; Review drafts of filing materials including multiple iterations of Affidavit,	3.20



Date	Initials	Description	Hours
		Report, draft Order; Telephone discussion with US counsel; Attend to all other matters related to filing;	
09/08/2018	GRA	Attend to preparing materials for court filing; Review documents; Telephone call with L. Ellis; Telephone call with D. Ward; Provide comments on various documents;	2.30
09/09/2018	GRA	Review and consider Wells comments on Report; Review US security documents; Review final draft of Affidavit; Review final draft of Initial Order; Review APA; Review draft of Forbearance Agreement; Review revised Vesting Order draft; Conference call with clients and company's counsel to discuss draft Report;	2.40
09/10/2018	SDC	Email exchanges regarding application; review application materials and factum in preparation for application;	1.40
09/10/2018	GRA	Review and respond to correspondence; Meet with S. De Caria regarding initial application and materials; Review final versions of initial application materials; Prepare for initial application;	1.10
09/11/2018	SDC	Prepare materials and prepare for application; attend at initial application before J. Penny; various email exchanges with counsel and client; prepare template opinion summary and email exchanges with US counsel; review Initial Order;	2.50
09/11/2018	GRA	Prepare for, travel to and attend initial application; Telephone call with P. Casey; Review and respond to correspondence; Meet with S. De Caria regarding opinion;	1.10
09/12/2018	SDC	Review various emails from counsel; review emails regarding US proceedings; review email regarding escrow agreement; review and revise escrow agreement; edit and update and prepare blackline; email to clients regarding escrow agreement;	1.50
09/12/2018	GRA	Review and respond to correspondence regarding various issues; Review and consider draft Affidavit of C. Emmott; Review draft Escrow Agreement; Instructions to S. De Caria regarding draft Agreement; Discussion with D. Ward regarding various issues;	1.10



Date	Initials	Description	Hours
09/12/2018	LG	Telephone call with Todd Ambachtsheer re: shipping/receiving employees requesting vacation.	0.20
09/13/2018	GRA	Review and consider draft Order and Affidavit; meet with S. De Caria regarding various issues; Review and respond to correspondence;	0.50
09/13/2018	SDC	Review email correspondence regarding escrow agreement; telephone call with clients regarding escrow agreement	0.90
09/13/2018	GRA	Review and respond to correspondence; Review and consider Escrow Agreement; Telephone call with Jordan Sleeth; Discussion with S. FDe Caria; Telephone call with D. Ward;	1.40
09/15/2018	GRA	Review and respond to correspondence; Review and revise draft Monitor's Report;	0.90
09/16/2018	GRA	Review and respond to correspondence; Review changes to Report from US counsel; Review new draft of Report;	0.50
09/17/2018	SDC	Review First Report and emails regarding First Report; Review Supplementary Affidavit in support of Sale Approval Motion; review email exchanges and discuss with G. Azeff; email exchanges regarding report;	0.40
09/17/2018	AA	Preparing Affidavit for commissioning; meeting with Chris to commission Affidavit; scanning and sending the commissioned Affidavit to Toronto.	0.70
09/17/2018	GRA	Review security documents and meet with S. Parekh regarding opinion; Review final draft of Report; Review Motion Record; Review and respond to correspondence from US counsel; Review and consider email regarding error in Report; Telephone calls (2x) with G. Page regarding Report; Telephone call with D. Ward regarding Report; Meet with S. De Caria regarding various issues; Review Endorsement of Justice Penny; Prepare for Motion;	2.20
09/18/2018	SDC	Review motion record for sale approval and correspondence exchange regarding motion; attend at sale approval motion before J. Penny;	1.00
09/18/2018	GRA	Review and respond to correspondence; Multiple	1.90



Date	Initials	Description	Hours
		discussions with S. De Caria regarding next steps; Draft Order regarding approval of Report; Meet with S. Parekh regarding security opinion; Prepare for, travel to and attend motion at 330 University Avenue;	
09/19/2018	SP	Email student re: draft chart of security documents;	0.20
09/19/2018	GRA	Review and respond to correspondence; Multiple discussions with S. De Caria regarding security review and next steps; Review and consider searches and security documents;	1.50
09/20/2018	PL	Catalogue and summarize documents, agreements, and searches for various companies;	3.80
09/20/2018	GRA	Review and respond to correspondence; Continue reviewing security documents; Multiple discussions with S. De Caria; Telephone call with L. Ellis regarding various issues;	0.90
09/21/2018	PL	Catalogue and summarize documents, agreements, and searches for various companies;	1.80
09/24/2018	PL	Catalogue and summarize documents, agreements, and searches for various companies;	6.60
09/24/2018	LG	Emails from and to G. Azeff regarding inquiry from employee about pension and severance;	0.10
09/24/2018	GRA	Review and respond to correspondence; Review proposed employee communication; Consult with L. Goodfellow regarding employee communication;	0.40
09/25/2018	SDC	Review correspondence and Notice of Appearance;	0.10
09/25/2018	GRA	Review, consider and respond to correspondence;	0.20
09/26/2018	GRA	Review and respond to correspondence; Review lengthy update report to Hilco; Meet with S. Parekh regarding status of security review and opinion letter;	0.60
09/27/2018	GRA	Review and respond to correspondence regarding security review; Telephone call to S. Parekh regarding security review;	0.20
09/28/2018	SP	Cursory review of summary chart of security; reach out to local agents/counsel for security opinions; conference with G. Azeff re: structure of the security;	1.90



Date	Initials	Description	Hours
09/28/2018	SDC	Discuss status of motion, monitor's report and status of security opinions; review email from client regarding employment matters; discuss employment matters with G. Azeff; email to employee regarding response to inquiry; reporting email to clients regarding	0.70
09/28/2018	PL	Electronically file documents and agreements; update catalogue of documents and agreements;	1.20
09/28/2018	GRA	Review and revise draft Notice of Motion; Telephone call with L. Ellis and D. Ward; Review Wells security package to determine which documents to include in Report; Telephone call with B. Wolfe regarding US opinion letter; Telephone call with client regarding various issues including report timeline; Multiple discussions with S. Parekh regarding Manitoba and maritime sections of opinion; Multiple discussions with S. De Caria regarding potential class proceeding and employee issues; Begin reviewing Red Ash security package;	2.70
09/28/2018	SM	Review and provide summary regarding perfection of security interests in Alberta;	0.90
09/29/2018	GRA	Review and respond to correspondence; Review and consider revised US Sale Order; Consider issues for Second Report;	1.10
09/30/2018	SP	Draft security opinion;	4.50
09/30/2018	GRA	Review security provided by Vendors under TPS Purchase Agreement; Drafting sections for Second Report regarding security and opinion letters; Review and respond to correspondence;	2.40
		Total Hours	78.40

Our Fee:

38,520.50



TK ID	Initials	Name	Title	Rate	Hours	Amount
05977	AA	A. Asif	Articling Student	\$130.00	0.70	\$91.00
00991	GRA	G. Azeff	Partner	\$680.00	41.00	\$27,880.00
00884	LG	L. Goodfellow	Partner	\$665.00	0.30	\$199.50
02677	PL	P. Little	Articling Student	\$195.00	13.40	\$2,613.00
00994	SDC	S. De Caria	Associate	\$334.45	15.50	\$5,184.00
03763	SM	S. Mirkovic	Associate	\$270.00	0.90	\$243.00
02410	SP	S. Parekh	Associate	\$350.00	6.60	\$2,310.00

Ontario HST 13% (R119440766)
On Fees

\$5,007.67

Total Amount Due

\$43,528.17

E.&O.E.

This is Exhibit "B" referred to in the Affidavit of Alina Stoica sworn October 3, 2018.

A handwritten signature in blue ink, consisting of several overlapping loops and a small 'e' at the beginning, positioned above a horizontal line.

Commissioner for Taking Affidavits (or as may be)

EXHIBIT "B"

SUMMARY OF FEES FOR THE PERIOD AUGUST 30, 2018 TO SEPTEMBER 30, 2018

Invoice No.	Fees	Disbursements	HST	Hours	Average Hourly Rate	Total
3236021	\$38,520.50	\$0.00	\$5,007.67	78.40	\$374.90/h	\$43,528.17

This is Exhibit "C" referred to in the Affidavit of Alina Stoica sworn October 3, 2018

A handwritten signature in blue ink, consisting of several loops and flourishes, positioned above a horizontal line.

Commissioner for Taking Affidavits (or as may be)

EXHIBIT "C"

BILLING RATES OF MILLER THOMPSON LLP FOR THE PERIOD AUGUST 30, 2018 to SEPTEMBER 30, 2018

TIMEKEEPER	HOURLY RATE	YEAR OF CALL
Gregory Azeff	\$680.00	2002
Lisa Goodfellow	\$665.00	1993
Shaun Parekh	\$350.00	2015
Stephanie De Caria	\$330.00	2015
Stefan Mirkovic	\$270.00	2017
Peter Little	\$195.00	Articling Student
A Asif	\$130.00	Articling Student

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36,
AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KRAUS BRANDS
INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS PROPERTIES INC., KRAUS USA
INC., and STRUDEX INC.

Court File No.: CV-18-604759-00CL

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

Proceeding commenced at Toronto

**AFFIDAVIT OF ALINA STOICA
(Sworn October 3, 2018)**

MILLER THOMSON LLP

Scotia Plaza
40 King Street West, Suite 5800
P.O. Box 1011
Toronto, ON Canada M5H 3S1

Gregory Azeff LSUC#: 45324C
gazeff@millerthomson.com
Tel: 416.595.2660
Fax: 416.595.8695

Lawyers for the Court- Appointed Monitor,
Deloitte Restructuring Inc.