

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

BETWEEN:

**PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED
ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP**

Applicant

- AND -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED and 538626 B.C. LTD.
Respondents

APPLICATION UNDER SUBSECTION 46(1) and SECTION 243 OF THE *BANKRUPTCY AND
INSOLVENCY*
ACT, R.S.C. 1985, c. B-3, as amended

**SECOND REPORT OF PRICEWATERHOUSECOOPERS INC.
AS INTERIM RECEIVER AND PROPOSED RECEIVER**

June 10, 2012

INTRODUCTION

1. By Order dated May 28, 2012 (the “**Interim Receivership Order**”), PricewaterhouseCoopers Inc. (“**PwCI**”) was appointed as Interim Receiver (“**Interim Receiver**”) in respect of Kraus Inc. (“**KI**”), Kraus Canada Inc. (“**KCI**”) and Strudex Fibres Limited (“**Strudex**”) pursuant to Bankruptcy Applications (as defined herein) and a Receivership Application (as defined herein) brought by Pinnacle Capital Resources Limited, in its capacity as general partner of Red Ash Capital Partners II Limited Partnership (collectively “**Red Ash**” or the “**Lender**”) in these proceedings.
2. PwCI understands that applications (the “**Bankruptcy Application I**”) have been made before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) by Red Ash, for an order (the “**Bankruptcy Order I**”) appointing PwCI as a trustee in bankruptcy (the “**Trustee**”) pursuant to Section 43 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”) over the assets, undertakings and properties (“**Property**”) of Strudex and the Property of KI.
3. PwCI understands that a separate application (“**Bankruptcy Application II**”) (Bankruptcy Application I and Bankruptcy Application II are collectively referred to as the “**Bankruptcy Applications**”) has been made before the Court of Queen’s Bench in Winnipeg, Manitoba (the “**Winnipeg Court**”) by Red Ash, for an order (the “**Bankruptcy Order II**”) appointing PwCI as Trustee pursuant to section 43 of the BIA over the Property of KCI.
4. PwCI understands that Red Ash has not made an application to appoint a Trustee of 538626 B.C. Ltd. (“**Kraus BC**”) as Kraus BC is dormant. (Bankruptcy Order I and Bankruptcy Order II are hereinafter collectively referred to as the “**Bankruptcy Orders**”).
5. An application (the “**Receivership Application**”) has been made in these proceedings by Red Ash, for an order (the “**Receivership Order**”) appointing PwCI as receiver (the “**Receiver**”) pursuant to section 243(1) of the BIA over the Property of Strudex, KI, KCI and Kraus BC (together the “**Companies**”).
6. On June 5, 2012, the Winnipeg Court issued an order transferring Bankruptcy Application II to the Court in Ontario. The Interim Receiver understands that Bankruptcy Application II will be heard concurrently with Bankruptcy Application I on June 11, 2012.
7. In anticipation of PwCI’s appointment as Receiver, Kraus Brands LP (“**Kraus Brands**” or the “**Purchaser**”), an affiliate of Red Ash, has made a binding offer to PwCI in its capacity as the

proposed receiver (“**Proposed Receiver**”) for the purchase of substantially all of the Property that is subject to the Receivership Application (the “**Sale Transaction**”). The offer is set out in an Asset Purchase Agreement between the Receiver (to be executed upon its appointment, and authorization by the Court to do so) and the Purchaser (the “**KB APA**”). The original KB APA is attached as Appendix “**C**” to the first report of the Interim Receiver and Proposed Receiver dated May 29, 2012 (the “**First Report**”), but has since been amended with such non-material amendments as described herein. The Interim Receiver and Proposed Receiver seek approval of and authority of the Receiver, if appointed, to execute the form of KB APA attached hereto as Appendix “**A**”. Unless otherwise defined herein, defined terms have the meaning ascribed to them in the First Report.

8. PwCI is a licensed trustee within the meaning of section 2 of the BIA. PwCI has consented to act as Receiver and Trustee in these proceedings in the event that this Court grants the Receivership Order and the Bankruptcy Orders. PwCI has extensive knowledge of the Companies and their affiliates (the “**Kraus Group**”) as it was previously retained to act as the Companies’ financial advisor in addressing liquidity concerns, providing strategic advice and negotiating with the Companies’ various lenders, including the Companies’ Senior Syndicate.
9. The Interim Receiver and Proposed Receiver filed its First Report in respect of the Receivership Application and its motion for approval of the KB APA (the “**Sale Approval Motion**”).
10. We are writing this Second Report of the Interim Receiver and the Proposed Receiver of the Companies (the “**Second Report**”) in the same manner as if we had already been appointed as Receiver by this Court. This Second Report has been prepared to:
 - a) provide this Court with a summary of the Interim Receiver’s actions since its appointment, including its interactions with stakeholders;
 - b) report on the Companies’ business operations since the appointment of the Interim Receiver; and
 - c) provide this Court with updated information regarding the Sale Transaction and to provide the Interim their comments on the KB APA including:
 - (i) minor amendments to the KB APA;

- (ii) update on Priority Claims, BIA Charges, Source Deduction Claim and Assumed Liabilities (all as defined in the KB APA);
 - (iii) an update on the assumption of Real Estate Leases and Contracts (all as defined in the KB APA); and
 - (iv) an update on the status of conditions precedent in the KB APA.
11. In preparing this Second Report, the Interim Receiver and the Proposed Receiver have relied upon unaudited and draft, internal financial and other information of the Companies provided by the Companies. The Interim Receiver and the Proposed Receiver have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information provided and express no opinion, or other form of assurance, in respect of the information contained in this report. The Interim Receiver and Proposed Receiver reserve the right to refine or amend their comments and findings as further information is obtained or brought to their attention subsequent to the date of this Second Report.
12. Unless otherwise noted, all currency amounts contained in this report are expressed in Canadian dollars.

A. INTERIM RECEIVER'S ACTIVITIES SINCE ITS APPOINTMENT

MAILING TO PENSION BENEFICIARIES

13. Pursuant to the Interim Receivership Order, on May 28, 2012, the Interim Receiver sent by regular mail a copy of the notice advising of the appointment of the Interim Receiver (the "**Notice**") and of the Sale Approval Motion scheduled to be heard on June 11, 2012 to all members of the DB Plans, all members of the DC Plans, and all members of CCWIPP (collectively the "**Pension Plan Members**") for which management of the Companies ("**Management**") has provided mailing addresses. In total, the Interim Receiver has mailed 1,242 Notices.
14. As of the date of this Second Report, 42 of the Notices have been returned to the Interim Receiver as undeliverable.
15. In addition to the 42 returned Notices, the Companies do not have current mailing addresses for approximately 67 of the Pension Plan Members. The Interim Receiver has worked with Management to attempt to contact these individuals. For the most part these individuals have

not been employed by the Companies for several years and Management does not have current, if any, employee files on these individuals.

16. The Interim Receiver understands that the external administrators of the pension plans may be able to conduct certain searches through Human Resources and Skills Development Canada (“**HRSDC**”) to locate current addresses for these individuals with which the Companies have lost contact; however such searches may take several weeks to several months. The Interim Receiver understands that the right to request such searches is unavailable to the Companies.

WEBSITE & HOTLINES

17. Pursuant to the Interim Receivership Order, the Interim Receiver established a website (www.pwc.ca/car-krauscarpets) at which stakeholders, including Pension Plan Members and creditors could access additional information and court materials in respect of the proceedings.
18. In addition, the Interim Receiver established two dedicated toll free telephone numbers, one exclusively for Pension Plan Members through which Pension Plan Members could request copies of the court materials, and a second toll free telephone number for general inquiries.
19. As of June 8, 2012, the Interim Receiver has received and responded to 21 calls from Pension Plan Members and the Interim Receiver has couriered copies of the court materials to 11 Pension Plan Members who requested same.
20. As of the date of this Second Report, the Interim Receiver had received and responded to more than 25 general inquiries from stakeholders, both through email, the hotline and direct calls, in respect of these proceedings.

MONITORING RECEIPTS AND DISBURSEMENTS

21. Pursuant to the Interim Receivership Order, during the period May 28, 2012 to June 8, 2012 (the “**Monitoring Period**”), the Interim Receiver has attended at the Companies’ premises on several occasions to monitor the receipts and disbursements of the Companies and obtain an understanding of any issues that developed during the Monitoring Period. During the Monitoring Period, the Interim Receiver has observed the following:
 - a) receipts and disbursements during the Monitoring Period were largely as forecast, however as described in detail later in this Second Report, the Companies have made payments in respect

of certain Priority Claims (as defined in the KB APA) that were not forecast to be paid during the Monitoring Period;

- b) for the most part, the Companies paid on a cash on delivery basis (“**COD**”) for all goods and services ordered and delivered during the Monitoring Period. The Interim Receiver understands that a number of creditors provided credit terms to the Companies during the Monitoring Period. The Purchaser has advised the Interim Receiver and Proposed Receiver that it will assume (on Closing of the KB APA) all outstanding liabilities in respect of goods and services ordered by the Companies, which were delivered or provided to the Companies on or after the commencement of the Monitoring Period, but excluding any such obligations relating to goods not required and offered back to suppliers for collection or repossession substantially in the same state in which they were delivered;
- c) employees were paid in the ordinary course during the Monitoring Period and all required employee source deductions and employer contributions were remitted to Canada Revenue Agency (“**CRA**”);
- d) the Interim Receiver understands that the Companies made payments in the amount of approximately \$222,000 in respect of pre-filing obligations. For the most part these payments were made to transportation and logistics companies, and satisfied certain lien rights held by the transportation companies. In addition, the Companies paid certain amounts to employees, in respect of certain Priority Claims in a bankruptcy;
- e) the Companies have remitted payments in respect of the Leased Premises in Toronto, Edmonton, Vancouver and Winnipeg for the period June 1 – 10, 2012. The Companies did not remit payment in respect of the Leased Premises in Dartmouth (“**Dartmouth Premises**”). The Interim Receiver and Proposed Receiver have been advised by Management that it is no longer using the Dartmouth Premises. The Purchaser has also advised that it will not be assuming the Real Property Lease in respect of the Dartmouth Premises;
- f) during the Monitoring Period, the Companies have remitted to the pension plans all pension contributions that were due and payable and would be subject to a Priority Claim under s. 81.5 and s. 81.6 of the BIA;
- g) at the end of the Monitoring Period, the Companies had cash balances totaling approximately \$1.4 million; and

- h) the Companies did not require any advances under the Red Ash facility during the Monitoring Period, but have paid expenses from the collection of accounts receivables.

INTERACTIONS WITH STAKEHOLDERS

22. Since its appointment, the Interim Receiver has responded to various calls and emails from suppliers, lessors and Pension Plan Members. In general, the Interim Receiver has directed stakeholders to the website for further information on the proceedings and access to the court applications, court orders and the Interim Receiver's First Report.
23. The Interim Receiver and Proposed Receiver have not provided advice on how to respond to these court proceedings and have advised all Pension Plan Members who inquire to contact their own legal counsel.

Section 81.1 claims

24. Since the date of its appointment, the Interim Receiver and/or the Companies (or their respective counsel) have received and responded to seven claims for the repossession of property pursuant to section 81.1 of the BIA ("**30 Day Goods Claims**") in a total gross amount of approximately \$1,773,868.
25. The Interim Receiver has responded in writing to all 30 Day Goods Claims irrespective of whether the 30 Day Goods Claim was delivered to the Interim Receiver or the Companies. The Interim Receiver has notified all claimants that it has not been appointed as Trustee or Receiver under subsection 243(2) of the BIA and as such is not in possession of the property of the Companies, and therefore the right to repossess property under section 81.1 of the BIA has not been triggered.
26. Although, there is no requirement for it to do so, the Interim Receiver has, in order to further assist the Court, considered the validity of the 30 Day Goods Claims ("**Assessment**") on the basis of the criteria set out in s. 81.1 of the BIA. One of the seven 30 Day Goods Claims, in respect of Tri-Tex Co Inc. (the "**Tri-Tex Claim**"), was delivered to the Interim Receiver on the afternoon of June 8, 2012. As such, the validity of the Tri-Tex Claim was not considered in the Assessment discussed below.
27. Assuming the Bankruptcy Orders are granted by this Court on June 11, 2012 and the Companies have continued to operate in the normal course and have continued to consume goods at

expected levels in the period to June 11, 2012, the Interim Receiver estimates the value of valid 30 Day Goods Claims (excluding the Tri-Tex Claim) as at June 11, 2012 to be in the amount of approximately \$80,694, less than 5.2% of the aggregate amount of 30 Day Goods Claims delivered to the Interim Receiver and/or Companies.

28. The Interim Receiver attributes the significant difference between the amount claimed and the Interim Receiver's estimate of what would be valid on June 11, 2012 to the following:
- a) many of the 30 Days Goods Claims included invoices for goods delivered more than 30 days prior to June 11, 2012, which would not be eligible for repossession under s. 81.1 of the BIA;
 - b) goods delivered to affiliate companies that are not part of these proceedings were invoiced to the Companies. The goods were for the benefit and use of the affiliates and are not in the possession of the Companies. Therefore, these goods would not be in the possession of the Trustee on June 11, 2012, should this Court grant the Bankruptcy Orders;
 - c) the goods delivered within the 30 day period prior to June 11, 2012 were currently not or were not expected to be in the possession of the Trustee on June 11, 2012 as the goods had been or would be consumed in the normal course of the Companies' operations and production; and
 - d) goods delivered such as resin, had been added to silos or vats and mixed with previously delivered goods. Hence, it was not possible to identify and differentiate the goods shipped within the 30 days prior to June 11, 2012.
29. The Interim Receiver's Assessment has not been reviewed and/or agreed to by the parties asserting the 30 Day Goods Claims, the Companies, the Purchaser or other potentially interested parties.
30. The proposed form of Approval and Vesting Order has been revised to exclude any assets subject to 30 Day Goods Claims, pending determination of the validity of the 30 Day Goods Claim by the Court or agreement by the parties.
31. The forgoing addresses section 81.1 claims actually received as of the date hereof only and does not include potential claims of other unpaid suppliers that could potentially assert rights under section 81.1 of the BIA. However, the Interim Receiver notes that:
- a) in addition to the other eligibility criteria set out in the BIA, such claims cannot be validly asserted once the goods in question become subject to a sale; and

- b) the majority of recently ordered goods and services delivered to the Companies from and after May 28, 2012 (the date of the appointment of the Interim Receiver) were paid for in full by the Companies. The KB APA provides that any amounts owing to suppliers for the delivery of goods after May 28, 2012 as at the Closing Date will either be assumed by the Purchaser and discharged as an Assumed Liability or goods received during this period will be made available by the Purchaser for collection or repossession by the supplier, substantially in the same state in which the goods were delivered. Accordingly, safeguards have been put in place to protect the rights of parties that have provided trade credit to the Companies following the appointment of the Interim Receiver.

B. UPDATE ON THE BUSINESS OPERATIONS SINCE FILING

NEW CREDIT GIVEN/ ASSUMED LIABILITIES

32. As discussed earlier, during the Monitoring Period, the Companies' business operations have continued largely in the normal course, with the exception that goods and services have been provided principally on a COD basis. However, certain suppliers of goods and service have continued to provide the Companies with trade credit in the amount of approximately \$819,000. The Proposed Receiver understands that on Closing the Purchaser will assume all liabilities associated with goods and services ordered by the Companies, which are delivered or provided since May 28, 2012, but excluding any such obligations relating to goods not required and offered back to suppliers for collection or repossession substantially in the same state in which they were delivered.

TERMINATED EMPLOYEES

33. During the period May 25, 2012 to June 8, 2012, the Companies terminated 22 Non-Unionized employees (the "**Terminated Employees**").
34. The Terminated Employees have been paid all outstanding wages and vacation pay, and earned but unpaid defined benefit pension contributions as at the date of their termination have been remitted to the applicable pension plans. The Companies did not pay Terminated Employees any termination pay or severance pay. As such, the Terminated Employees may be entitled to an unsecured claim should this Court issue the Bankruptcy Orders and the Companies be adjudged bankrupt on June 11, 2012. Terminated employees may also be entitled to a claim

under the *Wage Earner Protection Program Act* (“**WEPPA**”) in respect of unpaid severance and termination pay.

NON-UNIONIZED EMPLOYEES

35. On May 28, 2012, Management and the Purchaser met with the Non-Unionized Employees to notify these employees of the Bankruptcy Applications, the Receivership Application, and the proposed sale of the business to Kraus Brands.
36. In addition, Non-Unionized Employees were notified that although the Purchaser intended to extend offers of employment to substantially all Non-Unionized Employees, pursuant to the KB APA, the Purchaser would not be assuming the Employee Plans (as defined in the KB APA), which includes all employee contracts and agreements, health and benefit plans and pension plans that are maintained, administered or contributed to by or on behalf of the Kraus Group and which cover any employee or former employee of the Kraus Group.
37. The Proposed Receiver understands that the Purchaser is in the process of setting up new benefit plans (the “**New Benefit Plans**”) and defined contribution pension plans (the “**New DC Plans**”) in respect of the Non-Unionized Employees, which will be effective on Closing.
38. The Proposed Receiver understands that the New DC Plans will be substantially similar to the existing DC Plans sponsored by the Companies, prior to the appointment of the Interim Receiver.
39. The Proposed Receiver understands that the New Benefit Plans are similar to the existing benefit plans provided by the Companies, however the New Benefit Plans require employees to contribute a higher co-pay percentage in respect of certain medical and dental benefits.
40. The Proposed Receiver has been advised by Management that most employees are understanding of the requirement for changes in their terms of employment. This is supported by the high rate of acceptance of the offers of employment (“**Offers**”) extended to Non-Unionized Employees as detailed below.

OFFERS OF EMPLOYMENT

41. Pursuant to the KB APA, on June 5, 2012 and June 6, 2012, the Purchaser extended Offers to some 224 Non-Unionized Employees (“**Designated Employees**”). Pursuant to the

Supplemental Affidavit of Chris Emmott, sworn June 7, 2012, the Purchaser does not intend to extend Offers to some 30 Non-Unionized Employees who are on long term disability. The Offers are conditional on Closing. For those Non-Unionized Employees that accept the Offers (“**Transferred Employees**”), employment will be effective on Closing or retroactive to Closing.

42. As of the date of this Second Report, the Proposed Receiver understands that the Companies have received signed acceptances from 215 of the 224 Designated Employees representing an acceptance rate of approximately 96%. Only one Designated Employee has advised that he would not be accepting the Offer. The remaining outstanding Offers are primarily in respect of Management and Designated Employees who are either on vacation, maternity leave or short term disability.

UNIONIZED EMPLOYEES

43. Management held meetings with its Unionized Employees and notified the Unionized Employees of the Bankruptcy Applications, the Receivership Application, the proposed sale of the business to Kraus Brands and the conditions precedent in the KB APA, including that the union members approve or ratify New Collective Agreements (that is, the new collective bargaining agreements to be agreed between the Purchaser and the applicable union on terms satisfactory to the Purchaser).
44. On May 31, 2012, Management met with the unionized employees that were subject to the collective bargaining agreement (“**CBA**”) between Strudex and United Food & Commercial Workers Canada (“**UFCW**”), Local 175 (March 1, 2008 to February 28, 2011; renewed March 1, 2011 to February 28, 2014) (the “**Old Strudex CBA**”). Following this meeting, the unionized employees held a vote to consider the terms and conditions under the New Collective Agreement, and as detailed later in this Second Report, approved and ratified the New Collective Agreement.
45. On May 31, 2012, Management met with the unionized employees that were subject to the CBA between KI and UFCW, Local 175 (July 1, 2009 to June 30, 2012) (the “**Old KI CBA**”). Following this meeting, the unionized employees held a vote to consider the terms and conditions under the New Collective Agreement and as detailed later in this Second Report, approved and ratified the New Collective Agreement.

46. The Proposed Receiver understands that the Purchaser has not required any changes to the terms and conditions of the collective bargaining agreement between the KCI and the Teamsters Local Union No. 213 (“**Teamsters Union**”) (October 1, 2010 to September 30, 2011) (the “**Old KCI CBA**”) and will assume the KCI CBA in accordance with the terms of the KB APA.

MATERIAL ADVERSE CHANGE

47. As of the date of this Second Report, the Interim Receiver has not been advised of any material adverse change by either Management or the Purchaser.

C. SALE TRANSACTION – ASSET PURCHASE AGREEMENT

SALE APPROVAL AND VESTING ORDER

48. As reported previously in this Second Report, on May 28, 2012, Kraus Brands made a binding offer to the Proposed Receiver to purchase substantially all of the Property of the Companies that is subject to the Receivership Application. The offer, which is set out in the KB APA, is subject to Court approval and authorization for the Receiver to execute the KB APA, clearance of the conditions precedent as well as updates to the Purchase Price. Subsequent to the offer being made, the Purchaser made certain minor amendments with the consent of the Proposed Receiver. These amendments are discussed below.
49. All capitalized terms used in this section but not otherwise defined have the meanings given to them in the KB APA.
50. The gross consideration of the KB APA is currently estimated to be in excess of \$83.0 million, and consists of:
- a) the assumption of certain portions of the Secured Debt owing by the Kraus Group to Red Ash in the amount of approximately \$80.2 million (“**Assumed Secured Debt**”);
 - b) the cash payment of certain Priority Claims ranking in priority to the Assumed Secured Debt (being the priority claims under sections 81.3, 81.4, 81.5, and 81.6 of the BIA), in an amount estimated to be approximately \$24,500. Priority Claims will be discussed in greater detail later in this Second Report; and
 - c) the amount of the Assumed Liabilities is estimated to be approximately \$2.8 million.

Assumed Liabilities include:

- (i) trade credit advanced by suppliers in respect of goods and services ordered and delivered during the Monitoring Period in the amount of approximately \$819,000, unless reduced for goods returned or offered for return to the applicable supplier;
- (ii) assumed outstanding wages and vacation pay of Transferred Employees in the amount of approximately \$2.0 million; and
- (iii) the assumption of other Priority Claims that are not paid or discharged on Closing, which are currently estimated at \$0.

PRIORITY CLAIMS

- 51. As reported previously in this Second Report, the Companies have paid all outstanding wages, vacation pay and unremitted pension contributions in respect of Terminated Employees. As such, the Priority Claim in respect of Terminated Employees is estimated to be \$0.
- 52. The estimated Priority Claim in respect of the BIA Charges related to unpaid pension contributions owing on behalf of Unionized and Non-Unionized employees pursuant to sections 81.5 and 81.6 of the BIA is estimated at \$0 as at the date of the Bankruptcy Orders (if granted). The Proposed Receiver understands that as of the date of this Second Report, there are no unpaid pension contributions as all outstanding amounts have been remitted to the various pension plans when due.
- 53. The Proposed Receiver has estimated a Priority Claims reserve (“**Priority Claims Reserve**”) in the amount of approximately \$24,500 in respect of:
 - a) the outstanding disbursements of Terminated Employees deemed as travelling sales persons under the BIA;
 - b) outstanding wages, vacation pay and unpaid pension contributions owing to an estimated number of Designated Employees who are not expected to accept Offers from the Purchaser; and
 - c) a reserve in respect of any unpaid current service pension contributions under the BIA.
- 54. Finally, the Priority Claim of CRA in respect of deducted but unremitted source deductions (“**Source Deduction Claim**”) as at the date of the Bankruptcy Orders (if granted) is estimated

to be \$0 because, as at the date of this Second Report, the Companies have remitted all required source deductions to the CRA. Pursuant to the KB APA, the Purchaser will assume the liability for any Source Deduction Claim in respect of the Companies that comes to its attention post Closing.

55. The Purchaser has deposited \$24,500 with the Proposed Receiver in respect of the Priority Claims Reserve discussed above. The Receiver (if appointed) will use the Priority Claims Reserve to fund any payments in respect of Priority Claims ranking in priority to the Assumed Secured Debt. The Proposed Receiver understands that any Priority Claims listed on Schedule I of the KB APA that are not to be paid by the Receiver will be assumed by the Purchaser on Closing.

REAL PROPERTY LEASES AND OTHER CONTRACTS

56. The Companies currently have five Leased Premises.
57. The Interim Receiver understands that the Companies vacated the Leased Premises in Dartmouth, Nova Scotia ("**Dartmouth Premises**") in late May 2012 and, accordingly the June 1, 2012 rent was not paid in respect of this Leases Premises. The Purchaser has confirmed that it does not intend to assume the Real Property Lease for the Dartmouth Premises ("**Dartmouth Lease**").
58. The Purchaser has not identified any of the remaining four Real Property Leases to be assumed immediately upon Closing. The KB APA provides that, providing the Receiver has the funds to do so, it will make commercially reasonable efforts to make arrangements with either the Trustee or the landlord directly of each of the Leased Premises, on terms substantially similar to those currently in place for the Companies and will pay rent and related expenses, if applicable, in respect of the Real Property Leases for a period of up to 90 days, until a decision has been made by the Purchaser whether or not to assume the Real Property Leases.
59. The Purchaser has identified certain Contracts that will be assumed and/or assigned to the Purchaser immediately on Closing. These assumed Contracts, which are primarily personal property leases, are set out in Schedule H of the KB APA. There are still a significant number of other Contracts where the Purchaser has not yet determined whether or not it intends to assume the Contracts.

60. The KB APA provides that if the Receiver has sufficient funding, it shall perform any post-Closing executory obligations of a financial or monetary nature under the Contracts (other than Real Property Leases) that are not assigned to the Purchaser on Closing for a period of up to 30 days post Closing. During this time the Purchaser will determine if the Contracts will be assumed pursuant to terms agreed upon by the counterparties. The Receiver understands that the primary monetary obligation to be fulfilled is the payment of rent pursuant to personal property leases.
61. As set out in the budget appended to the Funding Term Sheet, the form of which has been agreed to by the parties and attached as Appendix “B” hereto, the Purchaser has provided or has committed to provide the Proposed Receiver with cash in the amount of approximately \$1.0 million to fund Contracts and Real Property Lease obligations during the 30 day and 90 day period respectively that it needs to consider which Contracts and Real Property Leases it intends to assume.

STATUS OF CONDITIONS PRECEDENT

62. Pursuant to the KB APA there are certain significant conditions precedent to the completion of the sale of the Purchased Assets. The Interim Receiver understands that as of the date of its Second Report, with the exception of the conditions precedent to be considered and determined by this Court at a hearing on June 11, 2012, specifically the granting of the Bankruptcy Orders, the Receivership Order and the Sale Approval Motion, the conditions precedent have been met as follows:
- a) **The Purchaser shall have received Competition Act Approval** – On May 25, 2012, the Purchaser made an application to the Competition Bureau of Canada for an advance ruling certificate exempting Kraus Brands, the Proposed Receiver and the Kraus Group of Companies from the requirement to file a Part IX notification of the Competition Act. On June 5, 2012, the Commissioner of Competition, on behalf of the Competition Bureau, issued an advance ruling certificate. As such, this condition precedent has been satisfied;
 - b) **Each of the New Collective Agreements shall have been duly approved and ratified by the Applicable Unionized Employees**
 - (i) On May 31, 2012, union members that were subject to the Old Strudex CBA voted on its New Collective Agreement. The Proposed Receiver understands that 89

union members (approximately 85%) took part in the vote with 72 union members (approximately 81%) voting in favor of the New Collective Agreement. On May 31, 2012 union members that were subject to the Old KI CBA voted on its New Collective Agreement. The Proposed Receiver understands that 145 union members (approximately 85%) took part in the vote with 122 union members (approximately 85%) voting in favor of the New Collective Agreement; and

- (ii) The Proposed Receiver understands that there will be no changes to Old KCI CBA and the Old KCI CBA will be assumed by the Purchaser. The Purchaser has confirmed that the condition precedent in respect to amending the Old KCI CBA has been waived.

As such, the condition precedent in respect of each of the New Collective Agreements being approved and ratified by the applicable Unionized Employees has been satisfied or waived;

- c) **Funding Term Sheet** – As of the date of this Second Report, the terms of the Funding Term Sheet (as defined in the KB APA) have been agreed by Red Ash and the Proposed Receiver, thereby satisfying this condition precedent;
- d) **Additional Priority Claims** – As of the date of this Second Report, there has been no determination by the Court or any other Governmental Authority that the Purchaser is liable and responsible for any Claims under any Employee Plans, other than specifically agreed to by the Purchaser in the New Collective Agreements; and
- e) **Third Party Consents, Approvals and Authorizations** – Currently neither the Proposed Receiver nor the Purchaser are aware of any other consents, approvals or authorizations required for Closing.

MINOR AMENDMENTS

- 63. Since the execution of the KB APA by the Purchaser, the Purchaser has made certain minor amendments to the KB APA with the consent of the Proposed Receiver, described below:
 - a) Originally, the Purchaser intended to satisfy the Purchase Price by assuming portions of the first ranking and second ranking secured debt (amongst other consideration). The Purchaser now intends, for tax planning purposes to also assume a portion of the third ranking secured debt. As noted previously, the Purchaser and Red Ash, the secured creditor, are related parties;

- b) Under the KB APA, cash in the bank accounts of the Kraus Group constitutes a Purchased Asset, but not the actual bank accounts themselves. Under the amended KB APA, the Receiver will convey all of the Kraus Group's interests in such bank accounts as well. The Purchaser advises that it will deal directly with the Kraus Group's bank with respect to the operation of such accounts, post-Closing;
 - c) The Purchaser has confirmed that it will not be assuming the Dartmouth Lease and this has now been clarified in the amended KB APA;
 - d) The Purchaser has confirmed it has waived the condition to reach a New Collective Agreement with the Teamsters Union and will assume the obligations under the Old KCI CBA. This has been reflected in the amended KB APA; and
 - e) There have been other agreed upon amendments that the Proposed Receiver considers to be in the nature of "drafting clean up". The Purchaser has also updated certain Schedules, which updated Schedules are now incorporated in the amended KB APA. The ability to update certain Schedules - pre- and post- Closing, was contemplated by the terms of the Purchaser's original offer.
64. The Proposed Receiver notes that the requested Approval and Vesting Order provides for the approval of the KB APA, subject to such minor amendments as the Receiver deems necessary. For ease of comparison, attached as Appendix "C" is a blackline of only the amendments to the form of KB APA attached to the First Report. Attached as Appendix "A" is a clean copy of the amended and resubmitted KB APA for which approval is sought on the Sale Approval Motion.

D. RECOMENDATION

65. Based on the foregoing, the Proposed Receiver continues to recommend, for the following reasons, that in the event this Court appoints PwCI as Receiver, that this Court issue an order approving the KB APA and Sale Transaction and authorizing and directing the Receiver to execute the KB APA and take such steps as necessary to complete the Sale Transaction:
- a) a comprehensive Sale Process was recently conducted and all offers received during the Sale Process were substantially less than the consideration under the KB APA, which is in excess of \$83.0 million;
 - b) the Liquidation Analysis demonstrates that Red Ash would incur a significant shortfall on

approximately \$126.2 million of the indebtedness owed to it should the assets and business of the Kraus Group be liquidated;

- c) the Senior Syndicate, BMOCC and NK, each of which was represented by reputable financial and/or legal advisors in the insolvency and restructuring industry, sold their respective components of the Secured Debt to Red Ash at a discount thereby recognizing that the market value of the Secured Debt was less than its face value;
- d) the unsecured creditors are not being prejudiced by the Sale Transaction as the only creditor with an economic interest in the Sale Transaction is Red Ash, which will also suffer a shortfall on the Senior Debt extended to the Kraus Group; and
- e) the KB APA provides for continued employment for the vast majority of the Kraus Group's employees.

All of which is respectfully submitted on this 10 day of June, 2012.

PricewaterhouseCoopers Inc.

In its capacity as Interim Receiver of Kraus Inc., Kraus Canada Inc., Strudex Fibres Limited, and Proposed Receiver of the Respondents, and not in its personal capacity.



John McKenna
Senior Vice President



Michelle Pickett
Vice President

Appendix "A"

**PRICEWATERHOUSECOOPERS INC., solely in its capacity
as court-appointed receiver of Strudex Fibres Limited, Kraus
Inc., Kraus Canada Inc. and 538626 B.C. Ltd. and not in its
personal or corporate capacity**

- and -

KRAUS BRANDS LP

ASSET PURCHASE AGREEMENT

JUNE 11, 2012

TABLE OF CONTENTS

	Page
ARTICLE 1 DEFINITIONS AND PRINCIPLES OF INTERPRETATION	2
1.1 Definitions.....	2
1.2 Certain Rules of Interpretation.....	14
1.3 Entire Agreement.....	15
1.4 Schedules	15
1.5 Conflict	16
ARTICLE 2 PURCHASE AND SALE	16
2.1 Purchase and Sale of Purchased Assets	16
2.2 Excluded Assets	16
2.3 Assumed Liabilities	16
2.4 Excluded Liabilities	17
2.5 Assignment and Assumption of Transferred Contracts.....	19
2.6 Purchase Price.....	20
2.7 Satisfaction of Purchase Price.....	20
2.8 Purchase Price Allocation and Priority Claim Calculation.....	20
2.9 Closing	21
2.10 Receiver’s Deliveries	21
2.11 Purchaser’s Deliveries	22
2.12 Transfer of Real Property.....	23
ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF THE PARTIES	23
3.1 Representations and Warranties of the Receiver	23
3.2 Representations and Warranties of the Purchaser.....	24
3.3 Merger of Warranties	25
ARTICLE 4 EMPLOYEE MATTERS.....	25
4.1 Offers of Employment	25
4.2 Employee Plans.....	25
4.3 Privacy Laws.....	26

ARTICLE 5 CONDITIONS PRECEDENT	26
5.1 Conditions Precedent of the Purchaser	26
5.2 Conditions Precedent of the Receiver	27
ARTICLE 6 TERMINATION	29
6.1 Termination	29
6.2 Effects of Termination	29
ARTICLE 7 OTHER COVENANTS OF THE PARTIES	29
7.1 Books and Records	29
7.2 Access of the Receiver to Books and Records	29
7.3 Tax Matters	30
7.4 Post-Closing Cooperation	31
7.5 Acquisition of Assets on “As Is, Where Is” Basis	32
7.6 Title and Risk	33
7.7 Use of Kraus / Strudex Names	33
7.8 Access to Leased Premises and Continuation of Contracts	33
7.9 Amendments to Schedules	34
ARTICLE 8 GENERAL	34
8.1 Receiver’s Capacity	34
8.2 Press Releases	34
8.3 Receiver’s Certificate	34
8.4 Notices	35
8.5 Assignment	36
8.6 Time of the Essence	36
8.7 Enurement	36
8.8 Amendment	36
8.9 Further Assurances	37
8.10 Execution and Delivery	37
SCHEDULE A PURCHASED ASSETS	A-1
SCHEDULE B EXCLUDED ASSETS	B-1
SCHEDULE C ASSUMED LIABILITIES	C-1
SCHEDULE D PERMITTED ENCUMBRANCES	D-1

SCHEDULE E VESTING ORDER.....E-1
SCHEDULE F INTELLECTUAL PROPERTYF-1
SCHEDULE G SECURED DEBT3
SCHEDULE H TRANSFERRED CONTRACTS..... H-1
SCHEDULE I ESTIMATED PRIORITY CLAIMSI-1
SCHEDULE J LICENCESJ-1
SCHEDULE K LEASED PREMISES K-1
SCHEDULE L PERSONAL PROPERTYL-1
SCHEDULE M ASSUMED REAL PROPERTY LEASESM-1

THIS ASSET PURCHASE AGREEMENT is made the 11th day of June, 2012

BY AND AMONG:

PRICEWATERHOUSECOOPERS INC., solely in its capacity as court-appointed receiver of the assets, undertakings and properties of **STRUDEX FIBRES LIMITED, KRAUS INC., KRAUS CANADA INC. AND 538626 B.C. LTD.** and not in its personal or corporate capacity,

(the “**Receiver**”)

- and -

KRAUS BRANDS LP, a limited partnership formed under the Laws of Ontario,

(the “**Purchaser**”)

RECITALS:

- A. PricewaterhouseCoopers Inc. was appointed as the receiver of all of the assets, undertakings and properties of Strudex Fibres Limited (“**Strudex**”), Kraus Inc. (“**KI**”), Kraus Canada Inc. (“**KCI**”) and 538626 B.C. Ltd. (and collectively with Strudex, KI and KCI, the “**Kraus Group**”) pursuant to an order (the “**Appointment Order**”) of the Superior Court of Justice (Commercial List) (the “**Court**”) dated June 11, 2012.
- B. The Appointment Order authorizes the Receiver to enter into this Agreement (as defined herein) with the Purchaser to sell, assign and transfer to the Purchaser the Purchased Assets (as defined herein).
- C. The Receiver has agreed to sell, assign and transfer to the Purchaser and the Purchaser has agreed to purchase all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Purchased Assets subject to and in accordance with the terms and conditions of this Agreement.
- D. The transactions contemplated by this Agreement are subject to the approval of the Court and will be consummated only pursuant to the Vesting Order (as defined herein) to be entered in the Receivership Proceedings (as defined herein).

THEREFORE in consideration of the foregoing and their respective representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties (as defined herein) hereby agree as follows:

ARTICLE 1
DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

Whenever used in this Agreement the following words and terms shall have the meanings set out below:

“Accounts Payable” means amounts relating to the Business owing to any Person as of the Closing Time, which are incurred in connection with the purchase of goods or services in the ordinary course of business of the Kraus Group;

“Accounts Receivable” means all accounts receivable, book debts, surpluses, refunds, trade accounts, notes receivable and other debts due or accruing due to any member of the Kraus Group that remain uncollected and unreceived as of the Closing Time, together with all invoices, chattel paper, sale or purchase orders and other records, howsoever stored or recorded, in respect thereof, including any receivables, credits, surpluses or refunds related to Taxes, Employee Plans, freight and duties, together with any security interests or letters of credit granted in favour of the Kraus Group as security therefor and, for greater certainty, includes any Accounts Receivable due or owing from Kraus USA, Inc., Royal Scot Floorcovering LLC, Barrett Carpet Mills, Inc., Northstate and Kraus Floors LLC;

“Affiliate” of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, where “control” means the possession, directly or indirectly, of the power to direct the management and policies of such Person whether through the ownership of voting securities or otherwise;

“Agreement” means this asset purchase agreement, including all schedules, and all amendments or restatements, as permitted, and references to **“Article”**, **“Section”** or **“Schedule”** mean the specified Article or Section of, or Schedule to, this Agreement;

“Ancillary Agreements” means the Bill of Sale, the Assignment and Assumption Agreement, the Assignment and Assumption Agreement (Real Property), the Assumption of Charge Agreement, the Secured Debt Assignment and Assumption Agreement, the Assignment of Intellectual Property and any other agreement, document or instrument contemplated in this Agreement or that the Receiver or the Purchaser enter into in connection with the consummation of the transactions contemplated hereby;

“Appointment Order” has the meaning given in the Recitals;

“Assignment and Assumption Agreement” means one or more assignment and assumption agreements in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment to and assumption by the Purchaser of all of the Assumed Liabilities (other than those relating to the Real Property), including the rights and obligations under the Transferred Contracts;

“Assignment and Assumption Agreement (Real Property)” means an assignment and assumption agreement in form and substance satisfactory to the Receiver and Kraus Properties LP, acting reasonably, evidencing the assignment to and assumption by Kraus Properties LP of all of the Assumed Liabilities relating to the Real Property;

“Assignment of Intellectual Property” means an agreement in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment of all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Intellectual Property to the Purchaser;

“Assumed Liabilities” has the meaning given in Section 2.3;

“Assumed Real Property Leases” means the Contracts relating to the Leased Premises listed on Schedule M;

“Assumed Secured Debt” has the meaning given to it in Section 2.7(b);

“Assumption of Charge Agreement” means an agreement in form and substance satisfactory to the Parties between the Receiver, Kraus Properties LP and Red Ash pursuant to which the charges on title to the Real Property in favour of Red Ash are assumed by Kraus Properties LP on closing;

“Bankruptcy Orders” means the order or orders of the Court dated June 11, 2012 pursuant to Section 43 of the BIA adjudging each of Strudex, KI and KCI bankrupt;

“Bankruptcy Proceedings” means, collectively, the bankruptcy proceedings with respect to each of Strudex, KI and KCI commenced by the Bankruptcy Orders;

“Bankruptcy Trustee” means PricewaterhouseCoopers Inc. in its capacity as trustee in bankruptcy of each of KI, KCI and Strudex, appointed pursuant to the Bankruptcy Orders;

“BIA” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3;

“BIA Charges” means the charges created by Sections 81.3, 81.4, 81.5 and 81.6 of the BIA;

“Bill of Sale” means a bill of sale in form and substance satisfactory to the Parties, acting reasonably, duly executed by the Receiver, conveying to the Purchaser all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Purchased Assets;

“Books and Records” means all financial records and all other books, records, files and papers relating to the Business and/or the Purchased Assets, including financial, corporate, operations and sales books, records, books of account, advertising material, sales and purchase records, lists of suppliers and customers, business reports, plans and projections and all other documents, surveys, plans, files, records, assessments, correspondence and other data and information, financial or otherwise, including all data, information and databases stored on computer-related or other electronic media and all plans and specifications relating to the plant, buildings,

structures, Improvements and fixtures situated on the Real Property used in the Business (including all electrical, mechanical and structural drawings related thereto);

“**Business**” means the carpet manufacturing and carpet and other flooring distribution business of the Kraus Group;

“**Business Day**” means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario;

“**Capital Stock**” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation and any and all ownership interests in a person (other than a corporation), including membership interests, limited liability company interests, partnership interests, joint venture interests and beneficial interests, and any and all warrants, options or other rights to purchase any of the foregoing, including all such Capital Stock of Kraus USA, Inc., Royal Scot Floorcovering Distribution LLC, Barrett Carpet Mills, Inc., Northstate and Kraus Floors LLC;

“**Claims**” includes claims, demands, complaints, grievances, actions, applications, suits, causes of action, orders, charges, indictments, prosecutions or other similar processes;

“**Closing**” means the consummation and effectuation of the transactions contemplated hereby pursuant to the terms and conditions of this Agreement;

“**Closing Date**” is the day on which the Closing occurs;

“**Closing Time**” is the time of day on the Closing Date at which Closing occurs;

“**Collective Agreements**” means all collective bargaining agreements and all other union agreements governing the employment of any of the Employees, including the following:

- (a) the collective agreement dated March 20, 2008 between Strudex and United Food & Commercial Workers Canada, Local 175, as amended by Memorandum of Settlement dated June 13, 2011;
- (b) the collective agreement dated July 1, 2009 between KI and United Food & Commercial Workers Canada, Local 175; and
- (c) the collective agreement dated October 1, 2010 between KCI and Teamsters Local Union No. 213 (affiliated with the International Brotherhood of Teamsters, of the City of Vancouver, Province of British Columbia);

“**Competition Act**” means the *Competition Act*, R.S.C., 1985, c. C-34;

“**Competition Act Approval**” means either: (i) the Commissioner of Competition appointed under the Competition Act shall have issued an advance ruling certificate under section 102 of the Competition Act; or (ii) (A) the Commissioner of Competition shall have advised the Purchaser, in writing, that the Commissioner of Competition has no intention to file an

application under Part VIII of the Competition Act in connection with the transactions contemplated by this Agreement and (B) the waiting period under section 114 of the Competition Act shall have expired or been terminated or shall have waived, pursuant to section 113(c) of the Competition Act, the Parties' obligations under section 114 of the Competition Act;

"Contaminants" means any pollutant, contaminant, waste, toxic, corrosive or hazardous substance, deleterious substance, dangerous substance, or hazardous or special waste as defined in, or prohibited or regulated by, any Environmental Laws, including asbestos, asbestos-containing materials, radioactive materials, urea formaldehyde and PCBs (polychlorinated biphenyls);

"Contracts" means contracts, licences, leases, agreements, obligations, promises, undertakings, understandings, arrangements, documents, commitments, entitlements or engagements to which any member of the Kraus Group is a party, by which any member of the Kraus Group is bound or under which any member of the Kraus Group has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied) relating to the Purchased Assets and/or the Business, as same may be amended and/or restated, and including any and all related quotations, orders, proposals or tenders which remain open for acceptance, warranties, guarantees and documents ancillary thereto. For greater certainty, "Contracts" shall include the Collective Agreements and the Employee Plans;

"Court" has the meaning given in the Recitals;

"Cure Costs" means all amounts that must be paid, if any, to obtain a consent necessary to effect an assignment of a Transferred Contract;

"Deposit Accounts" means the following bank accounts at the following banking institutions:

Account	Name	Bank	Currency
0006-03591-0010924	STRUDEX	National Bank	CAD
0006-03591-0011025	STRUDEX	National Bank	CAD
0006-03591-0073420	KI	National Bank	CAD
0006-07411-0018526	KCI	National Bank	CAD
0006-07411-0018623	KCI	National Bank	CAD
0006-07411-0010363	KCI	National Bank	USD
0006-07411-0010860	KRAUS INC	National Bank	USD
0006-07411-0010967	STRUDEX	National Bank	USD

“Designated Employees” means the Non-Unionized Employees to whom offers of employment will be made by the Purchaser under this Agreement;

“Documents” means all files, documents, instruments, papers, Books and Records, reports, tapes, microfilms, photographs, letters, budgets, forecasts, ledgers, journals, title policies, customer lists, invoices, regulatory filings, operating data and plans, technical documentation (design specifications, functional requirements, operating instructions, repair data, manuals, flow charts, etc.), user documentation (installation guides, user manuals, training materials, release notes, working papers, etc.), marketing documentation (sales brochures, flyers, pamphlets, web pages, etc.), cost of pricing information, business plans, quality control records and procedures, blueprints, accounting and tax files, all files, customer files and documents (including credit information), personnel files for employees, supplier lists, records, literature and correspondence, including materials relating to Inventory, services, marketing, advertising, promotional materials, Intellectual Property, and other similar materials to the extent related to, used in, held for use in, or with respect to, the Business or the Purchased Assets, in each case whether or not in electronic form, whether or not physically located at a Facility, but excluding any materials exclusively related to any Excluded Assets;

“Employees” means any and all (i) employees or contractors of the Kraus Group who are actively at work (including full-time, part-time or temporary employees); and (ii) employees or contractors of the Kraus Group who are on lay-off or other leaves of absence (including maternity leave, parental leave, disability leave, sickness leave, workers’ compensation and other statutory leaves) and for greater certainty includes those employees of the Kraus Group whose employment was terminated by operation of law as a result of the Bankruptcy Orders;

“Employee Plan” means all contracts, agreements, plans, arrangements or policies (whether written or oral) providing for:

- (a) wages, salaries, incentive compensation, deferred compensation, bonuses, profit-sharing, severance or termination pay, share appreciation, share option, share purchase or other stock related rights relating to the Business;
- (b) health or other medical benefits (other than the Canada Pension Plan, the Ontario Health Insurance Plan and other similar health plans established and administered by any other province or state and workers’ compensation insurance provided pursuant to applicable Law), life or other insurance (including any self-insured arrangements), dental, disability, salary continuation, vacation, automobile, supplemental unemployment benefits, post-employment, retirement or supplemental retirement benefits (including compensation, pension, health, medical or life insurance benefits);

- (c) employee loan, employee assistance, pension, retirement or supplemental retirement plan or agreement (including any defined benefit or defined contribution pension plan and any group registered retirement savings plan); or
- (d) any other employee benefit plan or agreement (whether oral or written, formal or informal, funded or unfunded, including any post-retirement benefits), sponsored, maintained or contributed to or required to be contributed to by the Kraus Group for the benefit of any of the Employees, whether or not insured and whether or not subject to any applicable Law),

which are maintained, administered or contributed to by or on behalf of the Kraus Group and which cover any Employee or former employee of the Kraus Group, including the Pension Plans;

“Encumbrances” means, to the extent not considered a Lien, all encumbrances, interests and Claims, including any security interest, lien, collateral assignment, right of set-off, debt, obligation, liability, pledge, levy, charge, escrow, encumbrance, option, right of first refusal, restriction (whether on transfer, disposition or otherwise), third party right, right limited to any one or more of the members of the Kraus Group personally, other agreement term tending to limit any right or privilege of any one or more of the members of the Kraus Group under any Contract, conditional sale contract, title retention contract, mortgage, lease, deed of trust, hypothecation, indenture, security agreement, easement, license, servitude, proxy, voting trust, transfer restriction under any shareholder or similar agreement, or any other agreement, arrangement, contract, commitment, understanding or obligation of any kind whatsoever, whether written or oral, or imposed by any Law, equity or otherwise;

“Environment” means the air above the land, the water (including surfacewater and groundwater) in, on and under the lands and the land (including soil, sediments and lands submerged under water) as well as all animals, plants, fish and other species using or living in such areas;

“Environmental Laws” means any domestic or foreign statute, Law, ordinance, rule, regulation, by-law or Order relating to the Environment, in each case binding on the Person referred to in the context in which such words are used including, for greater certainty, relating to the storage, generation, use, handling, manufacture, processing, transportation, import, export, treatment, remediation, release or disposal of any Contaminants, but excluding those relating to occupational health and safety;

“Environmental Liabilities” means any and all liability, claim, demand, obligation, cause of action, remediation, cost recovery action, investigation, proceeding, Order, violation, damage, Loss, judgment, penalty, or fine asserted by any third party (including any private party or Government Authority), arising out of, or relating to, the Environment or Environmental Laws. “Environmental Liabilities” includes any liability or responsibility for costs of removing or disposing of any Contaminants, any costs relating to enforcement or legally required remedial actions, and any other costs or expense whatsoever, related to emissions or effluent containing Contaminants, whether onto or from the Real Property;

“Environmental Permits” means all permits, certificates, approvals, consents, authorizations, registrations, licences, exemptions, waivers or other Orders issued, granted, conferred, created or required by any Governmental Authority pursuant to any Environmental Laws;

“Excluded Assets” means the assets listed in Schedule B;

“Excluded Liabilities” has the meaning given in Section 2.4;

“Excluded Real Property Leases” means any Contracts relating to the lease or occupation of the Leased Premises unless listed on Schedule M;

“Existing Nelson Security” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Nelson Secured Debt;

“Existing Senior Security” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Senior Secured Debt;

“Existing Subordinated Security” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Subordinated Secured Debt;

“Facilities” means the facilities located on the Real Property or the Leased Premises;

“FF&E” means all equipment, machinery, fixtures, furniture, motor vehicles, computers, printers, tools, telephone systems, furnishings, artwork and plates and any related capitalized items and other tangible property of every kind, nature and description, or used or useful in the operation of the Business and the Purchased Assets, including any of the foregoing in possession of suppliers, customers and other third parties (including all such property that is damaged);

“Funding Term Sheet” means a term sheet between the Receiver and Red Ash in form and substance satisfactory to the Receiver and Red Ash, acting reasonably, pursuant to which Red Ash agrees to fund the Receiver for certain costs and expenses incurred by the Receiver in connection with the Receivership Proceedings;

“General Intangibles” means, other than the Intellectual Property, all intangible assets now owned or leased (or acquired or leased by the Kraus Group prior to the Closing Date), including all right, title and interest, if any, the Kraus Group has in or under any Contract, all payment intangibles, interest in business associations, Licenses, permits, approvals and authorizations which the Kraus Group holds for the Business from any Governmental Authority that relate to the Business, proprietary or confidential information, technical information, procedures, uncertificated securities, chequing and any other bank accounts, rights of the Kraus Group to receive payments, rights to receive dividends, distributions, cash, instruments, investment property and rights of indemnification.

“Governmental Authority” means governments, regulatory authorities, governmental departments, agencies, commissions, bureaus, officials, ministers, Crown corporations, courts, bodies, boards, tribunals or dispute settlement panels or other law or regulation-making organizations or entities: (a) having or purporting to have jurisdiction on behalf of any nation,

province, territory, state or other geographic or political subdivision thereof; or (b) exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

“Improvements” means buildings, structures, systems, facilities, easements, rights-of-way, privileges, improvements, licences, hereditaments, appurtenances and all other rights and benefits belonging, or in any way related to the Real Property;

“Intellectual Property” means all (a) patents, patent applications and patent disclosures, together with all reissuances, continuations, continuations in part, revisions, extensions, re-examinations, provisionals, divisions, renewals, revivals, and foreign counterparts thereof and all registrations and renewals in connection therewith, (b) trademarks, service marks, trade dress, logos, trade names and corporate names and other indicia of origin and corporate branding, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith, (c) works of authorship, copyrightable works, copyrights and all applications, registrations and renewals in connection therewith, (d) mask works and all applications, registrations and renewals in connection therewith, (e) trade secrets, inventions and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, business and marketing plans and proposals, assembly, test, installation, service and inspection instructions and procedures, technical, operating and service and maintenance manuals and data, hardware reference manuals and engineering, programming, service and maintenance notes and logs), (f) Software, (g) internet addresses, uniform resource locaters, domain names, websites, internet service provider contracts, e-mail accounts and web pages, (h) any and all other intellectual property and proprietary rights, (i) company-wide telephone numbers, and (j) goodwill related to all of the foregoing; in each case to the extent used or useful in the operation of the Business or related to any Purchased Asset, including such Intellectual Property listed on Schedule F;

“Inventory” means items that are held by the Kraus Group for sale, license, rental, lease or other distribution in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale, of every kind and nature and wheresoever situate relating to the Business including inventories of raw materials, work-in-progress, finished goods and by-products, operating supplies and packaging materials;

“KCI” has the meaning given in the Recitals;

“KI” has the meaning given in the Recitals;

“Kraus Group” has the meaning given in the Recitals;

“Law” means any federal, state, provincial, county, territorial, district, municipal, local, foreign, supranational or international law, statute, ordinance, regulation, by-law, rule, code, treaty or rule

of common law or otherwise of, or any order, judgment, injunction, decree or similar authority enacted, issued, promulgated, enforced or entered by, any Governmental Authority;

“**Leased Premises**” means the premises leased and occupied by any of the Kraus Group and listed on Schedule K, but for greater certainty, shall not include the premises located at 2285 Place Transcanadienne, Dorval, Quebec or the premises located at 10 Ilsley Avenue, Dartmouth, Nova Scotia;

“**Licenses**” means all the licences, permits (including any Environmental Permits), certificates, approvals, consents, registrations, orders, grants, permission and other authorizations and rights held by any members of the Kraus Group and related to the Purchased Assets or the Business and listed on Schedule J;

“**Lien**” means any lien (statutory or otherwise), mortgage, charge, hypothec, trust (whether express, deemed, constructive or remedial), pledge, security interest, prior assignment option, warrant, lease, sublease, right of possession, encumbrance, claim, right or restriction which affects, by way of a conflicting ownership interest or otherwise, the right, title or interest to or in any particular property, and includes Claims relating to Taxes, the BIA Charges and all charges created by the BIA, the Appointment Order, the Bankruptcy Orders or any other order of the Court in the Receivership Proceedings or the Bankruptcy Proceedings;

“**Loss**” means any and all loss, liability, damage, cost or expense actually suffered or incurred by a Party (including the costs and expenses of all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, assessments, judgments, Orders, rulings, dues, penalties, fines, amounts paid in settlement or compromise, including court costs and reasonable legal fees and expenses);

“**Nelson Secured Debt**” has the meaning given in Schedule G.

“**New Collective Agreements**” means collective bargaining agreements to be agreed to by the Purchaser and each of United Food & Commercial Workers Canada, Local 175 and Teamsters Local Union No. 213 to replace or modify each of the Collective Agreements on terms satisfactory to the Purchaser;

“**Non-Assumed Secured Debt**” means the secured indebtedness owing by the Kraus Group to Red Ash after the assumption of the Assumed Secured Debt by the Purchaser on Closing;

“**Non-Unionized Employees**” means all Employees who are not Unionized Employees;

“**Non-Transferred Employees**” means all Non-Unionized Employees who are not Transferred Employees. For greater certainty, “Non-Transferred Employees” includes (i) Non-Unionized Employees who are not Designated Employees and (ii) Designated Employees who are not Transferred Employees;

“**Northstate**” means Northstate Carpet Mills Pty Ltd.;

“**Order**” means any legally binding order, decision, determination, judgment, injunction, decree, award or writ of any court, arbitrator or Governmental Authority, or other Person who is authorized to make legally binding determinations;

“**Parties**” means the Receiver and the Purchaser collectively, and “**Party**” means any one of them;

“**Pension Plans**” means the Pension Plan for Employees of Kraus Inc. and Strudex Fibres Limited (FSCO Reg. No. 330621), the Registered Pension Plan for Employees of Kraus Canada Inc. (Manitoba Reg. No. 279992), the Pension Plan for Union Employees of Kraus Inc. (FSCO Reg. No. 942979) and the Pension Plan for Executive Employees of Kraus Inc. (FSCO Reg. No. 551580);

“**Permitted Encumbrances**” means the Liens and Encumbrances listed in Schedule D;

“**Person**” means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

“**Personal Information**” means information about an identifiable individual as defined in Privacy Law;

“**Personal Property**” means:

- (i) all machinery, plants, equipment, trade fixtures, furnishings, goods in process and accessories (including all FF&E) now or previously used in or related to the operation of the Business and situated on the Real Property, the Leased Premises and/or with a bailee as at the date of this Agreement, including all spare parts, supplies and equipment including those described in Schedule L, and any machinery and equipment held under a lease or title retention agreement used in or related to the operation of the Business;
- (ii) all maintenance and repair supplies and spares, supplies (including fuels, grease and chemicals and containers in which any of these are stored), related to the operation of the Business which are stored or situate upon the Real Property, the Leased Premises, and/or with a bailee as at the Closing Time;
- (iii) all computer hardware located at the Facilities;
- (iv) all trucks, cars, mobile equipment and other vehicles, plants, machinery and other equipment at or upon the Real Property, the Leased Premises or the Facilities and/or used by the Kraus Group or any one of them in connection with the Business, including, but not limited to, those listed in Schedule L;

- (v) any lease or conditional sales agreement of any equipment, plant, machinery or vehicles used in connection with the Business including, but not limited to, those listed in Schedule L; and
- (vi) any additional personal or movable property related to the Business and acquired by the Kraus Group subsequent to the date of this Agreement in the ordinary course of the operation of the Business or as otherwise acquired in accordance with the terms of this Agreement;

“Prepaid Expenses and Deposits” means the unused portion of amounts prepaid by or on behalf of the Kraus Group or any one of them relating to the Business or the Purchased Assets including Taxes, assessments, rates and charges, utilities, rents, tenant allowances, insurance and deposits with any public utility or any Governmental Authority, but excluding income or other Taxes which are personal to the Kraus Group;

“Priority Claims” means any obligations to the extent secured by any Liens or Encumbrances against the Purchased Assets ranking in priority to the Existing Senior Security and/or Existing Subordinated Security as at the Closing Time;

“Privacy Law” means the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5, the *Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c.F. 31, and any comparable Law of any other jurisdiction related to or applicable to the Employees;

“Purchase Price” has the meaning given in Section 2.6;

“Purchased Assets” means all intangible and tangible properties, assets, interests, claims and rights which are related to the operation of, and necessary to conduct, the Business as now conducted, wherever located, as of the Closing, which for greater certainty includes the properties, assets and interests listed in Schedule A but does not include the Excluded Assets;

“Real Property” means the lands and other real and immovable property owned by the Kraus Group, together with all premises, buildings, structures, appurtenances, fixtures, easement, rights of way, private roads and other Improvements situated thereon, therein and thereunder located at 65 Northfield Drive West, Waterloo, Ontario, and legally described as: Part of Lot 8, German Company Tract, Township of Waterloo, designated as Parts 1, 2, 3, 4, 5 & 6 on Plan 58R-4092; subject to Instruments 369437, 465123E and B45015; Waterloo;

“Real Property Tax Refunds” means any and all rebates, credits or refunds for realty taxes relating to the Real Property;

“Receiver” has the meaning given in the Recitals;

“Receiver’s Certificate” has the meaning given in Section 8.3;

“Receivership Proceedings” means the receivership proceedings with respect to the Kraus Group commenced by the Appointment Order;

“Red Ash” means Red Ash Capital Partners II Limited Partnership;

“Secured Debt Assignment and Assumption Agreement” means an assignment and assumption agreement in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment to and assumption by the Purchaser of the Assumed Secured Debt;

“Senior Secured Debt” has the meaning given in Schedule G;

“Software” means any computer program, operating system, application, system, firmware or software of any nature, point-of-entry system, peripherals, and data whether operational, active, under development or design, nonoperational or inactive, including all object code, source code, comment code, algorithms, processes, formulae, interfaces, navigational devices, menu structures or arrangements, icons, operational instructions, scripts, commands, syntax, screen designs, reports, designs, concepts, visual expressions, technical manuals, tests scripts, user manuals and other documentation therefor, whether in machine-readable form, virtual machine-readable form, programming language, modeling language or any other language or symbols, and whether stored, encoded, recorded or written on disk, tape, film, memory device, paper or other media of any nature, and all databases necessary or appropriate in connection with the operation or use of any such computer program, operating system, application, system, firmware or software.

“Strudex” has the meaning given in the Recitals;

“Subordinated Secured Debt” has the meaning given in Schedule G.

“Target Date” means June 11, 2012;

“Tax” and **“Taxes”** means any taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, and including those levied on, or measured by, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, excise, withholding, business, franchising, property, development, occupancy, payroll, health, social services, education and social security taxes, all surtaxes, all customs, duties and import and export taxes, countervail and anti-dumping, all licence, franchise and registration fees and all employment insurance, health insurance and Canada, and other government pension plan premiums or contributions;

“Transfer Taxes” has the meaning given in Section 7.3(c);

“Transferred Contracts” means, collectively, those Contracts listed on Schedule H, and shall include the Assumed Real Property Leases and the Licences, but, for greater certainty, shall not include any Employee Plans;

“Transferred Employees” means all Designated Employees who accept offers of employment made by the Purchaser pursuant to Section 4.1;

“**Unionized Employees**” means all Employees whose employment is governed by any of the Collective Agreements; and

“**Vesting Order**” means an order issued by the Court approving this Agreement and the transactions contemplated by this Agreement, authorizing the Receiver to enter into this Agreement and the Ancillary Agreements and to consummate the transactions contemplated by this Agreement, and vesting in the Purchaser all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest, in and to the Purchased Assets free and clear of all Liens and Encumbrances (other than Permitted Encumbrances), substantially in the form attached at Schedule E subject to such amendments as the Receiver and the Purchaser may mutually agree acting reasonably.

1.2 Certain Rules of Interpretation

In this Agreement:

- (a) **Currency** – All references to money amounts are to lawful currency of Canada;
- (b) **Governing Law** – This Agreement is a contract made under and shall be governed by and construed in accordance with the Laws of the Province of Ontario and the federal Laws of Canada applicable in the Province of Ontario;
- (c) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (d) **Including** – Where the word “including” or “includes” is used in this Agreement, it means “including (or includes) without limitation”;
- (e) **No Strict Construction** – The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party;
- (f) **Number and Gender** – Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders;
- (g) **Severability** – If, in any jurisdiction, any provision of this Agreement or its application to any Person or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to any other Person or circumstance;
- (h) **Time Periods** – Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by

excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day; and

- (i) **Legislation** - A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefore and all regulations and statutory instruments issued thereunder or pursuant thereto.

1.3 Entire Agreement

This Agreement and the agreements and other documents required to be delivered pursuant to this Agreement, constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions, understandings and agreements between the Parties relating to the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, oral or written, express, implied or collateral between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement and the Purchaser shall acquire all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets on an "as is, where is" basis. Any cost estimates, projections or other predictions contained or referred to in any other material that has been provided to the Purchaser or any of its Affiliates, subsidiaries, agents or representatives are not and shall not be deemed to be representations or warranties of the Receiver or any of its Affiliates, subsidiaries, agents, employees or representatives.

1.4 Schedules

The schedules to this Agreement, listed below, are an integral part of this Agreement:

<u>Schedule</u>	<u>Description</u>
Schedule A	– Purchased Assets
Schedule B	– Excluded Assets
Schedule C	– Assumed Liabilities
Schedule D	– Permitted Encumbrances
Schedule E	– Vesting Order
Schedule F	– Intellectual Property

<u>Schedule</u>	<u>Description</u>
Schedule G	– Secured Debt
Schedule H	– Transferred Contracts
Schedule I	– Estimated Priority Claims
Schedule L	– Licenses
Schedule M	– Leased Premises
Schedule L	– Personal Property
Schedule M	– Assumed Real Property Leases

1.5 Conflict

In the event of any conflict between the provisions of the body of this Agreement and the Schedules, the provisions of the body of this Agreement shall prevail.

ARTICLE 2 PURCHASE AND SALE

2.1 Purchase and Sale of Purchased Assets

On the terms and subject to the conditions of this Agreement, at the Closing, the Receiver shall transfer, sell, convey, assign and deliver unto the Purchaser, and the Purchaser shall purchase, acquire and accept from the Receiver all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest, in and to the Purchased Assets, which will, pursuant to the Vesting Order, be free and clear of all Liens and Encumbrances other than Permitted Encumbrances.

2.2 Excluded Assets

Notwithstanding any provision of this Agreement to the contrary, nothing herein shall be deemed to transfer, sell, convey or assign any of the Excluded Assets.

2.3 Assumed Liabilities

On the terms and subject to the conditions of this Agreement, the Purchaser agrees, effective at the Closing Time, to assume and be responsible for and thereafter honour, perform, discharge and pay as and when due the Assumed Secured Debt and the following obligations and liabilities of the Kraus Group:

- (a) all ordinary course debts, liabilities and obligations with respect to the Purchased Assets arising on or after the Closing Date, including all ordinary course debts, liabilities and obligations for goods to be sold, delivered or provided to the

Purchaser in connection with the Business and services to be rendered to the Purchaser in connection with the Business solely in relation to the Purchased Assets for the period from and after the Closing Date;

- (b) all debts, liabilities and obligations for any property taxes owing in respect of the Real Property arising on or after the Closing Date;
- (c) all Transfer Taxes arising from or relating to the purchase by the Purchaser of all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets hereunder;
- (d) all debts, liabilities and obligations to the Transferred Employees arising on or after the Closing Date;
- (e) all debts, liabilities and obligations to the Unionized Employees but only to the extent provided for under the New Collective Agreements or as otherwise expressly assumed by the Purchaser hereunder;
- (f) all accrued but unpaid wages and vacation pay owing to the Transferred Employees and Unionized Employees by the Kraus Group as at Closing (irrespective of whether such accrued and unpaid wages or vacation pay for Unionized Employees are provided for in the New Collective Agreements or the Collective Agreements);
- (g) all Cure Costs, if any, in relation to obtaining any consent to assign any Transferred Contracts, but only to the extent that the Purchaser requests such consent to be obtained and such Transferred Contract is effectively assigned to the Purchaser, provided however that the Receiver shall have no liability for Cure Costs;
- (h) all Priority Claims to the extent not paid or discharged on the Closing Date; and
- (i) certain other debts, liabilities and obligations, if any, specifically identified in Schedule C,

(Sections 2.3(a) – (i) are referred to herein collectively as, the “**Assumed Liabilities**”).

2.4 Excluded Liabilities

Other than the Assumed Liabilities and the Assumed Secured Debt, the Purchaser shall not assume and shall not be liable for any debts, liabilities or obligations of the Kraus Group (the “**Excluded Liabilities**”). Without limiting the generality of the foregoing, except to the extent constituting a Priority Claim, the Excluded Liabilities include:

- (a) all debts, liabilities and obligations related to any Excluded Assets;

- (b) all Accounts Payable other than those Accounts Payable, if any, specifically listed as Assumed Liabilities on Schedule C;
- (c) all debts, liabilities and obligations owing by any member of the Kraus Group to any other member(s) of the Kraus Group or any Affiliate thereof;
- (d) all debts, liabilities and obligations of any member of the Kraus Group pursuant to any warranty, representation or guarantee, whether written, oral or implied, made prior to Closing in any way related to product sold or delivered, or services provided, prior to the Closing in connection with the Business;
- (e) all debts, liabilities and obligations for or related to Taxes that are not expressly listed as Assumed Liabilities;
- (f) other than the Cure Costs, if any, payable in connection with the Transferred Contracts, all debts, liabilities and obligations arising from the ownership or use of the Purchased Assets prior to the Closing;
- (g) all debts, liabilities and obligations to the Employees arising prior to the Closing, except as specifically agreed to by the Purchaser in the New Collective Agreements or as otherwise specifically agreed to by the Purchaser in writing, provided that, other than as provided for in Sections 2.3(d), (e) and (f), nothing in this Agreement shall be deemed to constitute such agreement;
- (h) all debts, liabilities and obligations under or related to the Employee Plans, except as specifically agreed to by the Purchaser in the New Collective Agreements or as otherwise specifically agreed to by the Purchaser in writing, provided that nothing in this Agreement shall be deemed to constitute such agreement;
- (i) all debts, liabilities and obligations under any of the Collective Agreements except to the extent specifically provided for in the New Collective Agreements or as expressly assumed by the Purchaser hereunder;
- (j) all debts, liabilities and obligations under or in relation to the Excluded Real Property Leases;
- (k) all debts, liabilities and obligations relating to, including under any Contract related to, the premises located at 2285 Place Transcanadienne, Dorval, Quebec and 10 Ilsley Avenue, Dartmouth, Nova Scotia;
- (l) all Environmental Liabilities, except as required to be assumed by applicable Law; and
- (m) the Non-Assumed Secured Debt.

2.5 Assignment and Assumption of Transferred Contracts

- (a) Subject to any rights of consent by counterparties thereto, the terms and conditions of this Section 2.5, the Assignment and Assumption Agreement and the Vesting Order, the Transferred Contracts shall be assigned and transferred to the Purchaser at Closing, the consideration for which is included in the Purchase Price.
- (b) The Purchaser will assume and agree to perform and discharge the Assumed Liabilities under the Transferred Contracts pursuant to this Agreement and the Assignment and Assumption Agreement.
- (c) Up to the Closing Date and for a period of 30 days following the Closing, the Purchaser shall have the right, but not the obligation, to elect to add to or supplement the list of Transferred Contracts (other than the list of Assumed Real Property Leases) by providing written notice to the Receiver, and upon any such election being made, such Contract shall be considered a Transferred Contract for all purposes in this Agreement.
- (d) Up to the Closing Date and for a period of 90 days following the Closing, the Purchaser shall have the right, but not the obligation, to elect to add to or supplement the list of Assumed Real Property Leases by providing written notice to the Receiver, and upon such election being made, such Assumed Real Property Lease shall be considered an Assumed Real Property Lease and a Transferred Contract for all purposes in this Agreement.
- (e) If any necessary consent for the effective assignment of a Transferred Contract is not obtained as of Closing, the Receiver shall use commercially reasonable efforts to obtain such consent in order to assign the Transferred Contracts to the Purchaser for a period of 90 days following Closing, provided that the Purchaser shall be responsible for the Receiver's costs and expenses related thereto. During such 90 day period, the Receiver shall take such actions and do such things as may be reasonably and lawfully designed, and designated by the Purchaser, to provide the benefits of those non-assignable Transferred Contracts to the Purchaser, including holding those Transferred Contracts in trust for the benefit of the Purchaser or acting as agent for the Purchaser.
- (f) Except in relation to any Contracts which are Transferred Contracts as of the Closing Date, the Receiver shall perform any post-Closing executory obligations of a financial or monetary nature under the Contracts for a period ending on the earliest of (i) the date that is 30 days following the Closing, (ii) the date upon which the Purchaser elects to include the Contract as a Transferred Contract pursuant to Section 2.5(c) and the Contract is assigned and transferred to the Purchaser under this Agreement, and (iii) the date upon which the Purchaser advises the Receiver in writing that it will not elect to include such Contract as part of the list of Transferred Contracts pursuant to Section 2.5(c), provided,

however, that the Receiver has sufficient funding for all post-Closing financial and monetary obligations under such Contracts.

- (g) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any Transferred Contract or any right thereunder to the extent that such Transferred Contract is not assignable under applicable Law without the consent of any other Person party thereto where the consent of such Person has not been given or received. For greater certainty, if such consent is required but not obtained, neither the Receiver nor the Purchaser shall be in breach of this Agreement nor shall the Purchase Price be adjusted or the Closing delayed.

2.6 Purchase Price

In consideration for the sale of all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets, to the Purchaser, and upon the terms and conditions of this Agreement, the purchase price, exclusive of all applicable Transfer Taxes, shall be the aggregate of (i) the amount of the Priority Claims paid on Closing, (ii) the amount of the Assumed Secured Debt, and (iii) the amount of the Assumed Liabilities (collectively, the "**Purchase Price**"). All applicable Transfer Taxes shall be paid by the Purchaser by certified cheque or bank draft, subject to the terms hereof and the availability of any exemptions or elections under any applicable legislation for such applicable Transfer Taxes.

2.7 Satisfaction of Purchase Price

The Purchaser shall satisfy the Purchase Price at Closing as follows:

- (a) by making a cash payment (by way of certified cheque, bank draft or wire transfer) to the Receiver to satisfy certain Priority Claims as set out on Schedule I; and
- (b) by assuming an amount equal to (i) \$62,711,722 of the Senior Secured Debt, (ii) \$10,500,578 of the Subordinated Secured Debt and (iii) \$7,000,000 of the Nelson Secured Debt (collectively, the "**Assumed Secured Debt**") by the execution and delivery by the Purchaser on Closing of the Secured Debt Assignment and Assumption Agreement; and
- (c) by assuming the Assumed Liabilities by the execution and delivery by the Purchaser on Closing of the Assignment and Assumption Agreement and by the execution and delivery by Kraus Properties LP of the Assignment and Assumption Agreement (Real Property).

2.8 Purchase Price Allocation and Priority Claim Calculation

- (a) At the Closing the Purchaser shall prepare and deliver to the Receiver a written initial allocation of the Purchase Price in respect of each of the Purchased Assets. The Purchaser and the Receiver shall use their commercially reasonable efforts to

agree, at or as soon as practicable following the Closing, on such allocation, for purposes of the *Income Tax Act* (Canada).

- (b) The Purchaser acknowledges and agrees that Claims listed on Schedule I hereto constitute Priority Claims to be paid or assumed by the Purchaser at the Closing Time, which Schedule I also includes a line by line estimate of the quantum of such Priority Claims as at the Target Date and indicates which Priority Claims shall be paid on Closing and which Priority Claims shall be assumed on Closing. The quantum of the Priority Claims estimated in Schedule I shall be updated on Closing, as mutually agreed to by the Parties, to reflect an updated estimate and the quantum of such Priority Claims to be paid or assumed on Closing. To the extent a creditor of the Kraus Group has a Claim or is owed an obligation that is not listed on Schedule I, such Claim or obligation shall not constitute a Priority Claim for the purposes of this Agreement unless and until it is determined to be so by final Order of the Court or other Governmental Authority after which time such Claim or obligation shall constitute a Priority Claim assumed under this Agreement and an Assumed Liability.

2.9 Closing

- (a) Unless otherwise agreed by the Parties, the Parties shall use commercially reasonable efforts to cause the Closing to occur on the Target Date.
- (b) Closing shall take place at the offices of Cassels Brock & Blackwell LLP, 40 King Street West, Suite 2100, Toronto, Ontario, Canada, or at such other location as the Parties may agree upon in writing. Any tender of documents or money hereunder may be made upon the Receiver or the Purchaser or upon the solicitors acting for the Party on whom tender is desired.

2.10 Receiver's Deliveries

At the Closing,

- (a) the sale, transfer, assignment, conveyance and delivery by the Receiver all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets to the Purchaser, free and clear of any Liens and Encumbrances (other than Permitted Encumbrances), shall be effected by the issued and entered Vesting Order and by execution and delivery by the Receiver of (i) the Bill of Sale, (ii) the Secured Debt Assignment and Assumption Agreement, (iii) the Assignment and Assumption Agreement, (iv) the Assignment of Intellectual Property, (v) the Assignment and Assumption Agreement (Real Property) and (vi) any other Ancillary Agreements reasonably required by the Parties, in each case in form and substance satisfactory to the Parties, acting reasonably;

- (b) the Receiver shall execute and deliver to the Purchaser, to the extent reasonably required by the Purchaser, the Ancillary Agreements;
- (c) the Receiver shall deliver, pursuant to the Vesting Order, free and clear title (subject to Permitted Encumbrances) and possession of the Purchased Assets (including all keys to the Facilities, combinations to any safes thereon and passwords for all computers thereon and any security devices therein which are reasonably available or known to the Receiver) on an “as is, where is” basis in accordance with Section 7.5, provided that delivery shall occur in situ wherever such Purchased Assets are located on the Closing Date;
- (d) the Kraus Group, by the Receiver, shall make and deliver the elections referred to in Section 7.3 to the extent available and applicable;
- (e) the Receiver shall deliver a certified copy of the Vesting Order, as entered by the Court;
- (f) the Receiver shall deliver a certificate executed by the Receiver, in a form satisfactory to the Purchaser, acting reasonably, certifying that all of the representations and warranties of the Receiver hereunder remain true and correct in all material respects as of the Closing Date;
- (g) the Receiver shall deliver an updated version of Schedule I (Priority Claims) pursuant to Section 2.8(b);
- (h) the Receiver, without payment of funds, shall deliver any Licenses obtained as of the Closing provided that the failure of the Receiver to deliver any License requested by the Purchaser shall not constitute a failure to satisfy a condition precedent to Closing; and
- (i) the Receiver shall deliver to the Purchaser on Closing the Receiver’s Certificate, which shall be filed with the Court as soon as practical following delivery to the Purchaser and a copy of such filed Receiver’s Certificate shall be delivered to the Purchaser promptly thereafter.

2.11 Purchaser’s Deliveries

At the Closing,

- (a) the Purchaser shall make the payments, if any, referred to in Section 2.7(a),
- (b) the Purchaser shall execute and deliver to the Receiver to the extent reasonably required by the Receiver, the Ancillary Agreements;
- (c) the Purchaser shall make and deliver the elections referred to in Section 7.3 to the extent available and applicable;

- (d) the Purchaser shall deliver a certified copy of the Appointment Order and the Bankruptcy Orders, each as entered by the Court; and
- (e) the Purchaser shall deliver a certificate executed by the Purchaser in a form satisfactory to the Receiver, acting reasonably, certifying that all of the representations and warranties of the Purchaser hereunder remain true and correct in all material respects as of the Closing Date.

2.12 Transfer of Real Property

Notwithstanding anything else in this Agreement, on Closing, the Receiver will transfer and assign all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in the Real Property and any Licences (subject to and in accordance with Section 2.5) related to the Real Property to Kraus Properties Inc. as general partner of Kraus Properties LP and Kraus Properties LP shall assume the Assumed Liabilities relating solely to the Real Property.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF THE PARTIES

3.1 Representations and Warranties of the Receiver

The Receiver hereby represents and warrants to the Purchaser the matters set out below.

- (a) Subject to entry of the Vesting Order:
 - (i) the Receiver has, or at the time of execution will have, all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder; and
 - (ii) this Agreement has been, or when executed will be, duly and validly executed and delivered by the Receiver and (assuming the due authorization, execution and delivery by the Purchaser) this Agreement constitutes, or will constitute, when executed and delivered, a valid and binding obligation of the Receiver enforceable against the Receiver in accordance with its terms, except as enforcement may be limited by Laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity.
- (b) Each of KI, KCI and Strudex are registered for purposes of tax imposed under Part IX of the *Excise Tax Act* (Canada) with the following registration numbers: 10288 2438 RT0001 (KI), 10566 1672 RT0001 (KCI) and 11939 0623 RT0001 (Strudex).
- (c) The Receiver is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada).

- (d) The Receiver has not engaged in any act that has or could result in an Encumbrance affecting any of the Purchased Assets (other than any charge created by the Appointment Order).

3.2 Representations and Warranties of the Purchaser

The Purchaser hereby represents and warrants to the Receiver the matters set out below.

- (a) Kraus Brands Inc. has been duly incorporated and is validly subsisting under the Laws of the jurisdiction of its incorporation, and has all requisite corporate capacity, power and authority to carry on its business as now conducted by it and to own its properties and assets and is qualified to carry on business under the Laws of the jurisdictions where it carries on a material portion of its business.
- (b) The Purchaser is a limited partnership duly formed and existing under the laws of Ontario and has the power and authority to enter into, and to perform its obligations under, this Agreement.
- (c) Kraus Properties LP is a limited partnership duly formed and existing under the laws of Ontario.
- (d) The execution, delivery and performance by Kraus Brands Inc. for and on behalf of the Purchaser of this Agreement:
 - (i) has been duly authorized by all necessary corporate action on the part of the Kraus Brands Inc. for and on behalf of the Purchaser;
 - (ii) does not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) require any consent or approval under, result in a breach or a violation of, or conflict with, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected; and
 - (iii) will not result in the violation of any Law.
- (e) This Agreement has been duly executed and delivered by Kraus Brands Inc. for and on behalf of the Purchaser and constitutes a legal, valid and binding obligations of the Purchaser, enforceable against it in accordance with its terms subject only to any limitation under applicable Laws relating to: (i) bankruptcy, winding-up, insolvency, arrangement and other similar Laws of general application affecting the enforcement of creditors' rights; and (ii) the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.
- (f) The Purchaser is or will become registered for the purposes of the tax imposed under Part IX of the *Excise Tax Act* (Canada) effective on or prior to Closing.

3.3 Merger of Warranties

The representations and warranties made by the Receiver and the Purchaser contained in this Agreement will merge and terminate on Closing.

ARTICLE 4 EMPLOYEE MATTERS

4.1 Offers of Employment

- (a) At least four (4) Business Days prior to the Target Date but conditional upon the Closing and with effect as of the Closing Date, the Purchaser shall offer to employ the Designated Employees on terms and conditions acceptable to the Purchaser, in its sole discretion.
- (b) The Purchaser agrees that it will be bound by and will comply with the New Collective Agreements.
- (c) For greater certainty, except to the extent constituting a Priority Claim, nothing herein shall be deemed to make the Purchaser responsible or liable for:
 - (i) any severance payments, damages for wrongful dismissal and all related costs in respect of the termination of any Non-Transferred Employees;
 - (ii) any liabilities for claims for injury, disability, death or workers' compensation arising from or related to employment of the Employees prior to the Closing Date; and
 - (iii) any employment-related claims, penalties and assessments in respect of the Purchased Assets arising out of matters which occur prior to the Closing Date,

any and all of which shall, for greater certainty, be deemed to be Excluded Liabilities under this Agreement.

4.2 Employee Plans

Except as may be specifically agreed to by the Purchaser in the New Collective Agreements or otherwise specifically agreed to by the Purchaser in writing (provided that nothing in this Agreement shall be deemed to be such an agreement), the Purchaser shall not assume any of the Employee Plans (including the Pension Plans) or liability for accrued benefits or any other liability under or in respect of any of the Employee Plans, all of which will, for greater certainty, not form part of the Purchased Assets, the Transferred Contracts or the Assumed Liabilities. The Transferred Employees will, as of the Closing Date in respect of their employment by the Kraus Group, cease to accrue further benefits under the Employee Plans.

4.3 Privacy Laws

The Purchaser will, following the date of this Agreement, observe all requirements of any applicable Privacy Law with respect to the Personal Information relating to the Transferred Employees and the Unionized Employees, as well as any Personal Information provided to or obtained by the Purchaser relating to any Employee who is not employed by the Purchaser following the Closing.

ARTICLE 5 CONDITIONS PRECEDENT

5.1 Conditions Precedent of the Purchaser

The obligations of the Purchaser to complete the transactions contemplated by this Agreement shall be subject to the satisfaction of or compliance with, at or before the Closing Time, each of the following conditions precedent (each of which is acknowledged to be inserted for the exclusive benefit of the Purchaser and may be waived by it in whole or in part in its sole discretion):

- (a) all of the representations and warranties of the Receiver made in or pursuant to this Agreement shall be true and correct at the Closing Time and with the same effect as if made at and as of the Closing Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement);
- (b) the Receiver shall have performed or complied with, in all material respects, all its obligations, covenants and agreements under this Agreement and the Ancillary Agreements;
- (c) the Receiver shall have executed and delivered, or caused to be executed and delivered, to the Purchaser on or prior to the Closing Date the documents required to complete the transactions contemplated in this Agreement and the Ancillary Agreements as may reasonably be required by the Purchaser or its solicitors;
- (d) there shall be no Order issued by any Governmental Authority delaying, restricting or preventing, and no pending or threatened Claim or judicial or administrative proceeding, or investigation against any Party by any Person, for the purpose of enjoining, delaying, restricting or preventing, the consummation of the transactions contemplated in this Agreement and the Ancillary Agreements or otherwise claiming that this Agreement and the Ancillary Agreements or the consummation of such transactions is improper or would give rise to proceedings under any Laws;
- (e) the Purchaser shall have obtained the Competition Act Approval;
- (f) the Appointment Order, the Bankruptcy Orders and the Vesting Order shall have been issued and entered by the Court in form and substance acceptable to the

Purchaser, acting reasonably, and shall not be subject to a stay and such orders shall not have been stayed, vacated or subject to pending appeal and no Order shall have been issued which restrains or prohibits the completion of the transaction contemplated hereby;

- (g) there shall have been no determination by the Court or any other Governmental Authority that any Claims related to any Employee Plans constitute Priority Claims other than Claims secured by the BIA Charges;
- (h) there shall have been no determination by the Court or any other Governmental Authority the result of which would be that Priority Claims exceed the amount of \$500,000;
- (i) each of the New Collective Agreements shall have been duly approved and ratified by the applicable Unionized Employees;
- (j) there shall have been no determination by the Court or any other Governmental Authority that the Purchaser is liable and responsible for any Claims under any Employee Plans (other than as specifically agreed to by the Purchaser in the New Collective Agreements); and
- (k) all consents, approvals and authorizations of any Person required in connection with the completion of any of the transactions contemplated by this Agreement, the execution of this Agreement and the Ancillary Agreements, the Closing or the performance of any of the terms and conditions of this Agreement and the Ancillary Agreements, shall have been obtained at or before the Closing Time on terms acceptable to the Purchaser, acting reasonably.

If any of the foregoing conditions in this Section 5.1 has not been fulfilled by the Closing Time, the Purchaser may terminate this Agreement by notice to the Receiver. However, the Purchaser may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition, in whole or in part, or to its rights to recover damages, if any, for the breach of any representation, warranty, covenant or condition contained in this Agreement.

5.2 Conditions Precedent of the Receiver

The obligations of the Receiver to complete the transactions contemplated by this Agreement shall be subject to the satisfaction of or compliance with, at or before the Closing Time, each of the following conditions precedent (each of which is acknowledged to be inserted for the exclusive benefit of the Receiver and may be waived by it in whole or in part in its sole discretion):

- (a) all of the representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct at the Closing Time and with the same effect as if made at and as of the Closing Time (except as such representations

and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement);

- (b) the Purchaser shall have performed or complied with, in all material respects, all its obligations, covenants and agreements under this Agreement and the Ancillary Agreements;
- (c) the Purchaser shall have obtained the Competition Act Approval;
- (d) the Purchaser shall have executed and delivered or caused to be executed and delivered to the Receiver on or prior to the Closing Date the documents required to complete the transactions contemplated in this Agreement and the Ancillary Agreements as may reasonably be required by the Receiver or its solicitors, including an indemnity in respect of applicable Transfer Taxes as contemplated by Section 7.3(d) hereof;
- (e) there shall be no Order issued by any Governmental Authority delaying, restricting or preventing, and no pending or threatened Claim or judicial or administrative proceeding, or investigation against any Party by any Person, for the purpose of enjoining, delaying, restricting or preventing, the consummation of the transactions contemplated in this Agreement and the Ancillary Agreements or otherwise claiming that this Agreement and the Ancillary Agreements or the consummation of such transactions is improper or would give rise to proceedings under any Laws;
- (f) the Funding Term Sheet shall have been executed and delivered by Red Ash to the Receiver;
- (g) the Appointment Order, the Bankruptcy Orders and the Vesting Order shall have been issued and entered by the Court in form acceptable to the Receiver, acting reasonably, and such orders shall not have been stayed, vacated or subject to pending appeal and no Order shall have been issued which restrains or prohibits the completion of the transaction contemplated hereby; and
- (h) all consents, approvals and authorizations of any Person required in connection with the completion of any of the transactions contemplated by this Agreement and the Ancillary Agreements, the execution of this Agreement and the Ancillary Agreements, the Closing or the performance of any of the terms and conditions of this Agreement and the Ancillary Agreements, shall have been obtained at or before the Closing Time on terms acceptable to the Receiver, acting reasonably.

If any of the foregoing conditions in this Section 5.2 has not been fulfilled by the Closing Time, the Receiver may terminate this Agreement by notice to the Purchaser. However, the Receiver may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition, in

whole or in part, or to its rights to recover damages, if any, for the breach of any representation, warranty, covenant or condition contained in this Agreement.

ARTICLE 6 TERMINATION

6.1 Termination

This Agreement may be terminated at any time prior to Closing as follows:

- (a) by mutual written consent of the Receiver and the Purchaser;
- (b) by the Purchaser if any of the Appointment Order, the Bankruptcy Orders or the Vesting Order have not been issued by the Court by June 11, 2012;
- (c) by either the Receiver or the Purchaser if the Closing has not occurred on or before June 25, 2012; or
- (d) by the Purchaser pursuant to Section 7.6 hereof.

6.2 Effects of Termination

If this Agreement is terminated pursuant to Section 6.1 all further obligations of the Parties under or pursuant to this Agreement shall terminate without further liability of any Party to the other, provided that nothing herein shall relieve any Party from liability for any breach of this Agreement occurring before the termination hereof.

ARTICLE 7 OTHER COVENANTS OF THE PARTIES

7.1 Books and Records

At Closing, the Receiver shall deliver to the Purchaser, at the Purchaser's sole expense, original versions of the Documents, if any, that are in the possession of the Receiver or that are reasonably within the Receiver's control, provided that delivery shall occur in situ wherever such Documents are located at the Closing Time.

7.2 Access of the Receiver to Books and Records

The Receiver and its representatives and the Bankruptcy Trustee appointed under the Bankruptcy Orders and its representatives shall, for a period of six (6) years from the Closing Date, have access to, and the right to copy, at their expense for bona fide business purposes, to the extent necessary or useful in connection with the filing of any Tax return or the defence or settlement of any litigation or to comply with any applicable Law and during usual business hours, upon reasonable prior notice to the Purchaser, all Books and Records relating to the Business, the Purchased Assets and the Assumed Liabilities which are to be transferred and conveyed to the

Purchaser pursuant to this Agreement. The Purchaser shall use reasonable efforts to retain and preserve all such Books and Records for such six (6) year period.

7.3 Tax Matters

- (a) The Purchaser and the Receiver agree to furnish or cause to be furnished to each other, as promptly as practicable, such information and assistance relating to the Purchased Assets and the Assumed Liabilities as is reasonably necessary for the preparation and filing of any Tax return, claim for refund or other required or optional filings relating to Tax matters, for the preparation for and proof of facts during any Tax audit, for the preparation for any Tax protest, for the prosecution of any suit or other proceedings relating to Tax matters and for the answer to any governmental or regulatory inquiry relating to Tax matters.
- (b) For all Tax purposes, the Purchaser and, to the extent applicable, the Receiver, agree to report the transactions contemplated in this Agreement in a manner consistent with the Purchase Price allocation determined in accordance with Section 2.8, and the Purchaser and the Receiver shall not voluntarily take any action inconsistent therewith in any Tax return, refund claim, litigation or otherwise, unless required by applicable Tax laws. The Purchaser and the Receiver shall each be responsible for the preparation of their own statements required to be filed under the *Income Tax Act* (Canada) and other similar forms in accordance with applicable Tax laws.
- (c) All consideration from the Purchaser and all amounts payable by the Purchaser to the Receiver pursuant to this Agreement do not include any federal, provincial, state or local goods and services, harmonized sales, value-added, sale, use, consumption, multi-staged, ad valorem, personal property, customs, excise, stamp, transfer, land transfer, or similar Taxes, duties, or charges, or any recording or filing fees or similar charges (collectively, "**Transfer Taxes**") and all Transfer Taxes are the responsibility of and for the account of the Purchaser. The Purchaser and the Receiver agree to cooperate to determine the amount of Transfer Taxes payable in connection with the transactions contemplated under this Agreement. If the Receiver is required by applicable Law or by administration thereof to collect any applicable Transfer Taxes from the Purchaser, the Purchaser shall pay such Transfer Taxes to the Receiver concurrent with the payment of any consideration payable pursuant to this Agreement, unless the Purchaser qualifies for an exemption from any such applicable Transfer Taxes, in which case the Receiver shall not collect any such applicable Transfer Taxes from the Purchaser provided the Purchaser, in lieu of payment of such applicable Transfer Taxes to the Receiver, delivers to the Receiver such certificates, elections or other documentation required by applicable Law or the administration thereof to substantiate and affect the exemption claimed by the Purchaser.

- (d) The Purchaser shall indemnify and save the Receiver harmless from and against all claims and demands for payment of the Transfer Taxes referenced in this Section, including penalties and interest thereon and any liability or costs incurred as a result of any failure to pay such Transfer Taxes when due.
- (e) If applicable, at the request of the Purchaser, each member of the Kraus Group by the Receiver shall, together with the Purchaser, jointly make the elections provided for in paragraph 167(1)(b) of the *Excise Tax Act* (Canada) to have subsection 167(1.1) of the *Excise Tax Act* (Canada) apply in respect of the transactions contemplated by this Agreement. If such election or elections are applicable and if the Purchaser requests the Receiver on behalf of any member of the Kraus Group to make such election or elections, the Purchaser shall:
 - (i) file such election(s) within the time prescribed by subsection 167(1.1) of the *Excise Tax Act* (Canada); and
 - (ii) at all times indemnify and hold harmless each member of the Kraus Group and the Receiver and their respective shareholders, directors, officers and employees, against and in respect of any and all amounts assessed by the Minister of National Revenue (Canada) or other Governmental Authority (including all reasonable legal and professional fees incurred by the Receiver or its directors, officers and/or employees, as a consequence of or in relation to any such assessment) as a consequence of the Minister of National Revenue (Canada) or other Governmental Authority determining, for any reason, that either election is unavailable, inapplicable, invalid or not properly made.
- (f) If applicable, each member of the Kraus Group, by the Receiver, and the Purchaser shall jointly execute, and each of them will file promptly following the Closing Date, elections under section 22 of the *Income Tax Act* (Canada), and any corresponding provisions of any applicable provincial income Tax legislation with respect to any debts referred to in such section 22 and corresponding provisions of any applicable provincial income Tax legislation. For the purposes of such elections, the Purchaser, acting reasonably and in consultation with the Receiver, will designate the portion of the Purchase Price allocable to the debts in respect of which such elections are made. For greater certainty, the Receiver and the Purchaser agree to prepare and file their respective Tax returns in a manner consistent with such election(s).

7.4 Post-Closing Cooperation

For the period from the Closing to the later of (i) 90 days following the Closing Date and (ii) the date upon which the Receiver is discharged:

- (a) upon the terms, and subject to the conditions of this Agreement, each of the Parties shall use its commercially reasonable efforts to take, or cause to be taken,

all actions and to do, or cause to be done, and cooperate with each other in order to do, all things necessary, proper or advisable under applicable Law to consummate the transactions contemplated by this Agreement as soon as practicable, including the preparation and filing of all forms, registrations and notices required to be filed to consummate the Closing, and the taking of such actions as are necessary to obtain any requisite consent, provided that the Receiver shall not be obligated to make any payment or deliver anything of value to any Person (other than filing with and payment of any application fees to any Governmental Authority, all of which shall be paid or reimbursed by the Purchaser) in order to obtain any consent;

- (b) the Receiver shall, without payment of funds to counterparties, use reasonable efforts to obtain, and assist the Purchaser in obtaining, any Licences or consents required for the operation of the Business by the Purchaser from and after the Closing in the ordinary course of business. For greater certainty, if any Licence or consent is required but not obtained, neither the Receiver nor the Purchaser shall be in breach of this Agreement nor shall the Purchase Price be adjusted or the Closing delayed; and
- (c) in the event that any payments or funds relating to the Purchased Assets or the Business are made to or received at any bank account of the Kraus Group following the Closing, the Receiver shall collect those payments or funds as the agent, and on behalf, of the Purchaser and shall cause such payments or funds to be transferred to the Purchaser as soon as practicable following receipt.

7.5 Acquisition of Assets on “As Is, Where Is” Basis

The Purchaser hereby acknowledges and agrees as follows:

- (a) all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Purchased Assets are being purchased on an “as is, where is” basis at the Closing Date;
- (b) it has conducted or will conduct its own searches and investigations relating to the Purchased Assets;
- (c) it has conducted such inspections of the Purchased Assets as it deemed appropriate, satisfied itself with respect to the Purchased Assets and all matters connected with or related to the Purchased Assets, and has relied entirely upon its own investigations and inspections in entering into this Agreement to acquire all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Purchased Assets without regard to any information made available or provided by the Receiver or its officers, directors, employees or agents;

- (d) it will accept the Purchased Assets in their state, condition and location as at the Closing Time and except as expressly set forth in this Agreement, the Receiver makes no representations, warranties, statements or promises on its own behalf or on behalf of the Kraus Group in favour of the Purchaser concerning the Purchased Assets, or the Receiver's or the Kraus Group's right, title or interest in or to the Purchased Assets which the Purchaser acknowledges are being acquired on an as-is, where-is basis, or the uses or applications of the Purchased Assets, whether express or implied, statutory or collateral, arising by operation of Law or otherwise, including express or implied warranties of merchantability, fitness for a particular purpose, title, description, quantity, condition or quality, and that any and all conditions and warranties expressed or implied by the *Sale of Goods Act* (Ontario) do not apply to the transactions contemplated by this Agreement and are hereby waived by the Purchaser; and
- (e) without limiting the generality of the foregoing, the description of the Purchased Assets and any portion thereof contained in the Schedules hereto is for the purpose of identification only; and that no representation, warranty or condition has or will be given by the Receiver or any other party concerning completeness or the accuracy of such descriptions or with respect to any data room set up by the Kraus Group or the Receiver.

7.6 Title and Risk

If there occurs any material damage to the Purchased Assets prior to Closing, then the Purchaser may, at its option: (a) complete the Closing without reduction of the Purchase Price, in which event all applicable proceeds of insurance or compensation shall be payable to the Purchaser; or (b) terminate this Agreement, with the result that the Parties shall be released from all obligations and liabilities arising under this Agreement.

7.7 Use of Kraus / Strudex Names

As soon as practicable following Closing, the Receiver shall cause (i) the Kraus Group to discontinue use of the "Kraus" or "Strudex" names and (ii) each of KI, KCI and Strudex to change its name, to a name that does not include "Kraus" or "Strudex", as applicable, or any variations thereof.

7.8 Access to Leased Premises and Continuation of Contracts

Except in relation to any Leased Premises for which an Assumed Real Property Lease is already transferred to the Purchaser on Closing pursuant to this Agreement, the Receiver shall use commercially reasonable efforts to make arrangements with either the Bankruptcy Trustee or the landlord of each of the Leased Premises for continued occupation and access to the applicable Leased Premises on terms substantially similar to those in place for the Kraus Group for a period ending on the earliest of (i) the date that is 90 days following the Closing, (ii) the date upon which the Purchaser elects to include the Contract in respect of the Leased Premises as part of the list of Assumed Real Property Leases pursuant to Section 2.5(d) and such Contract is

assigned and transferred to the Purchaser under this Agreement, and (iii) the date upon which the Purchaser advises the Receiver in writing that it will not elect to include the Contract in respect of the Leased Premises as part of the list of Assumed Real Property Leases pursuant to Section 2.5(d), provided, however, that the Receiver has sufficient funding for all occupancy costs for any occupancy period requested by the Purchaser. If such arrangements are made, the Receiver shall permit full access to the Leased Premises during such occupancy period to the Purchaser (or such Person designated by the Purchaser) on such terms as may be agreed to by the Parties acting reasonably.

7.9 Amendments to Schedules

Without limiting the rights of the Purchaser contained in Section 2.5(c), the Purchaser, by written notice to the Receiver, shall be entitled to amend or supplement (including adding to or deleting from) any of the Schedules to this Agreement up to the Closing, other than Schedule D (Permitted Encumbrances), Schedule E (Vesting Order), Schedule G (Secured Debt), Schedule I (Estimated Priority Claims) and Schedule K (Leased Premises), which Schedules may only be amended by mutual agreement of the parties. For greater certainty, the Purchase Price shall not be adjusted (other than changes to the amounts to be paid or assumed on Closing resulting from amendments to Schedule I) and the Closing shall not be delayed as a result of any such amendment.

ARTICLE 8 GENERAL

8.1 Receiver's Capacity

The Purchaser and Kraus Properties LP each acknowledge and agree that in all matters pertaining to this Agreement, including in its execution, PricewaterhouseCoopers Inc. is acting solely in its capacity as receiver of the undertakings, properties and assets of the Kraus Group and not in its personal, corporate or any other capacity, and as such, its liability under this Agreement, if any, will be in its capacity as Receiver, and the Receiver, its agents, officers, directors and employees shall have no personal, corporate or other liability of any kind, whether in contract, in tort or otherwise. In no circumstance will the Receiver be liable for any consequential damages including loss of profit.

8.2 Press Releases

The Parties will cooperate and consult with one another, to the extent reasonably practical, with respect to the issuance of any press release or another other statement to press or media regarding this Agreement or the transaction contemplated hereunder.

8.3 Receiver's Certificate

The Parties hereby acknowledge and agree that the Receiver shall be entitled to file a certificate, substantially in the form attached to the Vesting Order (the "**Receiver's Certificate**"), with the Court upon receiving written confirmation from the Purchaser that all conditions of Closing have

been satisfied or waived, and the Receiver shall have no liability to the Purchaser or any other person as a result of filing the Receiver's Certificate.

8.4 Notices

Any notice, consent or approval required or permitted to be given in connection with this Agreement shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by facsimile:

- (a) in the case of a notice to the Receiver at:

PricewaterhouseCoopers Inc.
PwC Tower, Suite 2600
18 York Street
Toronto, Ontario, Canada
M5H 0B2

Attention: John P. McKenna
Fax No.: (416) 941-8378
Email: john.p.mckenna@ca.pwc.com

with a copy (which shall not constitute notice) to:

Blake Cassels & Graydon LLP
Commerce Court, Suite 4000
199 Bay Street
Toronto, Ontario, Canada
M5L 1A9

Attention: Pamela L. J. Huff / Linc A. Rogers
Fax No.: (416) 863-2653
Email: pamela.huff@blakes.com / linc.rogers@blakes.com

- (b) in the case of a notice to the Purchaser at:

KRAUS BRANDS LP
65 Northfield Drive West
Waterloo, Ontario
N2J 4J4

Attention: Howard Gunn
Fax No.: 020 7317 2051
Email: howard.gunn@hilcouk.com

with a copy (which shall not constitute notice) to:

Cassels Brock & Blackwell LLP
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario, Canada
M5H 3C2

Attention: Larry Ellis
Fax No.: (416) 640-3004
Email: lellis@casselsbrock.com

Any notice delivered or transmitted to a Party as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that it is delivered or transmitted on a Business Day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if the notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a Business Day then the notice shall be deemed to have been given and received on the next Business Day.

Any Party may, from time to time, change its address by giving notice to the other Party in accordance with the provisions of this Section.

8.5 Assignment

Neither Party shall assign this Agreement or any rights or obligations arising under this Agreement without the prior written consent of the other Party.

8.6 Time of the Essence

Time shall be of the essence in respect of the obligations of the Parties arising prior to Closing under this Agreement.

8.7 Enurement

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

8.8 Amendment

Other than the amendments to Schedules contemplated by Sections 2.5(c), 2.5(d), 2.8(b) and 7.9 or any amendment to Section 8.4, no amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any Party, shall be binding unless executed in writing by the Party to be bound thereby.

8.9 Further Assurances

The Parties shall, provided that the Receiver has not been discharged, with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by any other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after the Closing provided that the reasonable costs and expenses of any actions taken after Closing at the request of a Party shall be the responsibility of the requesting Party.

8.10 Execution and Delivery

This Agreement may be executed by the Parties in counterparts and may be executed and delivered by facsimile or other electronic means and all such counterparts and facsimiles (or other electronic deliveries) shall together constitute one and the same agreement.

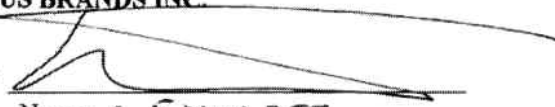
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IN WITNESS OF WHICH the Parties have executed this Agreement.

PRICEWATERHOUSECOOPERS INC.,
solely in its capacity as court-appointed receiver
of the assets, undertakings and properties of
**STRUDEX FIBRES LIMITED, KRAUS
INC., KRAUS CANADA INC. AND 538626
B.C. LTD.,** and not in its personal or corporate
capacity

By: _____
Name:
Title:

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

By: 
Name: C. EMMOTT
Title: DIRECTOR.

[Signature Page to Asset Purchase Agreement]

**SCHEDULE A
PURCHASED ASSETS**

- (a) all Accounts Receivable;
- (b) all Inventory;
- (c) all Intellectual Property;
- (d) all Personal Property;
- (e) the Real Property and all rights of the Kraus Group under each Assumed Real Property Lease and any related agreement, in each case together with the Receiver's interest, if any, and the Kraus Group's interest in and to all Improvements and fixtures located thereon or attached thereto, and other appurtenances thereto, and the Receiver's interest, if any, and the Kraus Group's rights in respect thereof;
- (f) all Prepaid Expenses and Deposits (including with respect to the Purchased Assets or the Business), customer deposits and security deposits (whether maintained in escrow or otherwise) and prepaid charges and expenses as they relate to the Purchased Assets or the Business;
- (g) all Documents;
- (h) all Licences, to the extent such Licences are assignable under applicable Law;
- (i) all rights under or arising out of all insurance policies relating to the Purchased Assets or the Business and all claims thereunder, unless non-assignable as a matter of Law;
- (j) any rights, claims or causes of action for claims arising out of the operation of the Business;
- (k) all rights under or pursuant to all warranties, representations and guarantees, whether written, oral or implied, made by suppliers, manufacturers and contractors to the extent relating to products sold, or services provided, in connection with the Business or to the extent affecting any Purchased Asset;
- (l) all goodwill and other General Intangibles associated with the Business and the Purchased Assets, including customer and supplier lists;
- (m) all Capital Stock;
- (n) the Transferred Contracts and all rights of the Kraus Group under each Transferred Contract;

(o)all Deposit Accounts;

(p)all cash and cash equivalents;

(q)any Real Property Tax Refund or credits, prepaid expenses and workers compensation refunds and other similar refunds, rebates or credits related to the Business; and

(r)all proceeds of any or all of the foregoing.

**SCHEDULE B
EXCLUDED ASSETS**

- 1.Excluded Real Property Leases.
- 2.All Contracts other than the Transferred Contracts.

SCHEDULE C
ASSUMED LIABILITIES

1. Notwithstanding anything else herein, pursuant to the Labour Code of British Columbia the Purchaser will be the successor employer to both the certification and collective agreement dated October 1, 2010 between KCI and the Teamsters Local Union No. 213.

2. All obligations, if any, owing to suppliers as of the Closing Time for goods and services ordered by the Kraus Group which are delivered or provided to the Kraus Group on or after May 28, 2012, but excluding any such obligations relating to goods not required and offered back to the suppliers for collection or repossession substantially in the state in which they were delivered.

SCHEDULE D
PERMITTED ENCUMBRANCES

The Permitted Encumbrances shall include:

- (a) The reservations, limitations, exceptions, provisos and conditions, if any, expressed in any original grants from the Crown relating to the Real Property including, without limitation, the reservation of any mines and minerals in the Crown or in any other Person.
- (b) Applicable municipal by-laws, development agreements, subdivision agreements, site plan agreements, airport zoning regulations and other similar agreements with government authorities or private or public utilities affecting the development or use of the Real Property, other agreements, building and other restrictions, easements, servitudes, rights of way and licences.
- (c) Defects or irregularities in title to the Real Property which are of a minor nature.
- (d) In respect of the Real Property, instrument No. B45015 being a Transfer of Easement in favour of the The Hydro - Electric Power Commission of Ontario for the purpose of installing and maintaining power transmission lines and underground conductors.
- (e) In respect of the Real Property, instrument No. 369437 being a Transfer of Easement in favour of The Public Utilities Commission of the City of Waterloo for the purpose of installing and maintaining underground power lines and cables.
- (f) In respect of the Real Property, instrument No. Z373176 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (g) In respect of the Real Property, instrument No. Z411919 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (h) In respect of the Real Property, instrument No. E465123 being a Transfer of Easement in favour of The Corporation of the City of Waterloo for the purpose of constructing and maintaining a storm and sanitary sewer.
- (i) In respect of the Real Property, instrument No. Z465123 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and 236753 Investment Limited, partially released by instrument No. 571904.
- (j) In respect of the Real Property, instrument No. 767172 being an Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited.

- (k) In respect of the Real Property, instrument No. WR305984 being a Charge registered in favour of National Bank of Canada securing the principal sum of \$165,000,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687890.
- (l) In respect of the Real Property, instrument No. WR312710 being a Charge in favour of BMO Capital Corporation securing the principal sum of \$12,500,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687891.
- (m) Existing Senior Security.
- (n) Existing Subordinated Security.
- (o) Existing Nelson Security.
- (p) Liens and Encumbrances to the extent they secure a Priority Claim and to the extent not paid or discharged on Closing.
- (q) Any validly perfected purchase money security interest relating to the Purchased Assets.

**SCHEDULE E
VESTING ORDER**

See attached.

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR) MONDAY, THE 11th
JUSTICE MORAWETZ)
DAY OF JUNE, 2012

B E T W E E N:

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP
Applicant

- and -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED
and 538626 B.C. LTD.
Respondents

APPLICATION UNDER SUBSECTION 46(1) and SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended

SALE APPROVAL AND VESTING ORDER

THIS MOTION, made by PricewaterhouseCoopers Inc. (“**PwC**”) in its capacity as Interim Receiver (the “**Interim Receiver**”) appointed by Order of this Court dated May 28, 2012 (the “**Interim Receivership Order**”) and in its capacity as the proposed Court-appointed receiver (the “**Proposed Receiver**”) pursuant to section 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the “**BIA**”) now appointed by Order of this Court dated June 11, 2012 (the “**Receivership Order**”) with such appointment to be effective as of the Effective Time as defined in such Order (the “**Receiver**”) of the undertaking, property and assets of Kraus Inc.

("KI"), Kraus Canada Inc. ("KCI"), Strudex Fibres Limited ("Strudex") and 538626 B.C. Ltd. (collectively, the "**Debtor**") for an order approving the sale transaction (the "**Transaction**") contemplated by an asset purchase agreement between the Receiver and Kraus Brands LP (the "**Purchaser**") dated June 11, 2012 (the "**Sale Agreement**") the form of which is appended to the First Report of the Interim Receiver and Proposed Receiver dated May 30, 2012 (the "**First Report**"), as amended and described in the Second Report of the Interim Receiver and Proposed Receiver dated June 10, 2012 (the "**Second Report**") and vesting in the Purchaser, or any replacement or substitute thereof, the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the Purchased Assets other than the Real Property (as all such terms are defined in the Sale Agreement) (the "**LP Purchased Assets**"), and vesting in Kraus Properties Inc. as general partner of Kraus Properties LP ("**Kraus Properties LP**"), or any replacement or substitute thereof, the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the Real Property as defined in the Sale Agreement and as listed in **Schedule "B"** hereto, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report, the Second Report, the Affidavit of Chris Emmott sworn May 25, 2012 (the "**Emmott Affidavit**"), and the supplementary affidavit of Chris Emmott sworn June 7, 2012, and on hearing the submissions of counsel for the Interim Receiver, the Receiver, counsel for the Applicant, **[NAMES OF OTHER PARTIES APPEARING]**, no one appearing for any other person on the service list, although properly served as appears from the affidavits of Natalina Arvaj sworn May 30, June 5, 6 and 7, 2012, the Affidavits of Tim Lenehan sworn May 30 and June 6, 2012, the Affidavits of Wondimu Feleke sworn May 31, 2012, the Affidavits of Paul Young sworn June 4, 2012 filed, and upon bankruptcy orders having been issued in respect of each of KI, KCI and Strudex earlier this day (the "**Bankruptcy Orders**"),

AND ON BEING ADVISED that the Pension Plan Members (as defined in the First Report) were sent a copy of the Notice as directed by the Interim Receivership Order, and upon bankruptcy orders having been granted earlier this day in respect of KI, KCI and Strudex, and upon the Receivership Order having been granted earlier this day to be effective immediately prior to the Effective Time (as defined in the Receivership Order),

1. **THIS COURT ORDERS** that that the time for service of the Notice of Motion and the Motion Record, including the First Report and the Second Report, be and is hereby abridged and that the Motion is properly returnable today and further that the requirement for service of the Notice of Motion and Motion Record, including the First Report and Second Report, upon interested parties, other than those served, is hereby dispensed with and that the service of the Notice of Motion and Motion Record, including the First Report and Second Report, as effected by the Interim Receiver and Proposed Receiver is hereby validated in all respects.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Sale Agreement, along with any ancillary agreements contemplated therein, by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets for the Purchase Price as defined in the Sale Agreement all in accordance with the Sale Agreement.

3. **THIS COURT ORDERS AND DECLARES** that, subject to paragraphs 6 and 7 below, upon the delivery of the Receiver's Certificate to the Purchaser substantially in the form attached as **Schedule "A"** hereto (the "**Receiver's Certificate**"), all of the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the LP Purchased Assets shall vest absolutely in the Purchaser, or any replacement or substitute thereof, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Mr. Justice Morawetz dated June 11, 2012; (ii) all charges, security interests, hypothecs, or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the "**Encumbrances**", which term shall not include the permitted encumbrances, easements and restrictive covenants listed on **Schedule "D"** hereto) and, for greater certainty, this Court orders that all of the Encumbrances affecting or

relating to the LP Purchased Assets are hereby expunged and discharged as against the LP Purchased Assets.

4. **THIS COURT ORDERS AND DECLARES** that upon the delivery of the Receiver's Certificate to Kraus Properties LP, all of the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the Real Property described in the Sale Agreement and listed on **Schedule "B"** hereto shall vest absolutely in Kraus Properties LP, or any replacement or substitute thereof, free and clear of and from any and all Claims and Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule "D"** hereto) and, for greater certainty, this Court orders that all of the Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule "D"** hereto) affecting or relating to the Real Property are hereby expunged and discharged as against the Real Property.

5. **THIS COURT ORDERS** that upon the registration in the Land Registry Office for the Land Titles Division of Waterloo North (No. 58) of an Application for Vesting Order in the form prescribed by the *Land Titles Act*, the Land Registrar is hereby directed to enter Kraus Properties Inc. as the owner of the Real Property as identified in **Schedule "B"** hereto in fee simple, and is hereby directed to delete and expunge from title to the Real Property all of the Claims and Encumbrances listed in **Schedule "C"** hereto.

6. **THIS COURT ORDERS AND DECLARES** that upon the delivery of the Receiver's Certificate to the Purchaser, all of the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the capital stock of Northstate Capital Mills PTY Ltd. described in the Sale Agreement (collectively, the "**Northstate Shares**") shall vest absolutely in the Purchaser, in trust for Red Ash Capital Partners II Limited Partnership, or any replacement or substitute thereof, free and clear of and from any and all Claims and Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule "D"** hereto) and, for greater certainty, this Court orders that all of the Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule "D"** hereto) affecting or relating to the Northstate Shares are hereby expunged and discharged as against the Northstate Shares.

7. **THIS COURT ORDERS THAT** certain of the LP Purchased Assets described on **Schedule “E”** are subject to claims purportedly delivered pursuant to s. 81.1 of the BIA at the time of the granting of the bankruptcy orders in respect of KI, KCI and Strudex (individually a “**s. 81.1 Asset**” and collectively, the “**s. 81.1 Assets**”). Until such time as the claim to a s. 81.1 Asset is determined, by court order or by agreement amongst the Receiver, the applicable claimant to the s. 81.1 Asset and the Purchaser (the “**Determination**”), such s. 81.1 Asset shall remain the property of KI, KCI or Strudex respectively and shall not vest in the Purchaser pursuant to paragraph 3 above. Until a Determination in respect of a s. 81.1 Asset, the Purchaser shall segregate and preserve in the same state and condition the s. 81.1 Assets and provide reasonable access to the Receiver and such claimants to the s. 81.1 Assets for the purpose of assessing the rights thereto. On a Determination that the applicable claimant to a s. 81.1 Asset does not have a claim thereto, such s. 81.1 Asset shall immediately vest in the Purchaser in accordance with paragraph 3 above. On a Determination that the applicable claimant to a s.81.1 Asset has a valid claim thereto pursuant to section 81.1 of the BIA, such s.81.1 Asset shall immediately be made available for recovery by the applicable claimant or shall be purchased by the Purchaser, on terms acceptable to the claimant and the Purchaser.

8. **THIS COURT ORDERS AND DECLARES** that the Receiver and/or any director or officer of each Debtor, following the completion of the Transaction, is authorized to execute, deliver and file any document, including without limitation, any articles of amendment, required in order to effect a change of the corporate name of each of KI, KCI and Strudex, and waives any third party requirement or required consent pursuant to any Canadian federal or provincial legislation.

9. **THIS COURT ORDERS AND DIRECTS** that the documents marked as Confidential Appendices A, B and C to the First Report contain confidential information and shall remain confidential and shall not form part of the permanent court record pending further order of this Court.

10. **THIS COURT ORDERS AND DECLARES** that the First Report is deemed to be the First Report of the Receiver and the Second Report is deemed to be the Second Report of the Receiver, and the conduct and activities of the Interim Receiver, the Proposed Receiver and the Receiver outlined in the First Report and the Second Report are hereby approved.

11. **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, as soon as practicable after delivery thereof.

12. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Debtor's records pertaining to the Debtor's past and current employees. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

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

- (a) the pendency of these proceedings; and
- (b) the Bankruptcy Orders,

the vesting of the LP Purchased Assets in the Purchaser and the Real Property in Kraus Properties LP pursuant to this Order shall be binding on the trustee in bankruptcy appointed in respect of the Debtor (and any replacement or substitute thereof) and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

14. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario), section 31 of the Ontario *Mortgages Act* and subsection 63(4) of the Ontario *Personal Property Security Act*.

15. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully

requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

Schedule A – Form of Receiver’s Certificate

Court File No. CV-12-9731-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general
partner of RED ASH INVESTMENTS II LIMITED PARTNERSHIP

Applicant

- and -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED
and 538626 B.C. LTD

Respondents

RECEIVER’S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (the "**Court**") dated June 11, 2012 (the "**Order**"), PricewaterhouseCoopers Inc. was appointed as the receiver (the "**Receiver**") of the undertaking, property and assets of Kraus Canada Inc., Kraus Inc., Strudex Fibres Limited and 538626 B.C. Ltd. (collectively, the "**Debtor**") effective as of the Effective Time as defined in such Order.

B. Pursuant to an Order of the Court dated June 11, 2012, the Court approved the sale transaction (the "**Transaction**") contemplated by the asset purchase agreement made as of June 11, 2012 (the "**Sale Agreement**") between the Receiver and Kraus Brands LP (the "**Purchaser**") and provided for the vesting in the Purchaser, Kraus Properties Inc. as general partner of Kraus Properties LP and the Purchaser in trust for Red Ash Capital Partners II Limited Partnership (the "**Purchasing Entities**") the Receiver’s, if any, and the Debtor’s right, title and

interest in and to the Purchased Assets as defined in the Sale Agreement, which vesting is to be effective, subject to paragraph 7 of the Order, upon the delivery by the Receiver to the Purchasing Entities of a certificate confirming (i) the satisfaction of the Purchase Price for the Purchased Assets pursuant to the Sale Agreement; (ii) that the conditions to Closing as set out in Article 5 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchase Price for the Purchased Assets was satisfied on the Closing Date pursuant to the Sale Agreement;
2. The conditions to Closing as set out in Article 5 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and
3. The Transaction has been completed to the satisfaction of the Receiver.
4. This Certificate was delivered by the Receiver at [____] TIME on _____ [DATE].

PricewaterhouseCoopers Inc., solely in its capacity as Receiver of the undertaking, property and assets of Kraus Canada Inc., Kraus Inc., Strudex Fibres Limited and 538626 B.C. Ltd. and not in its personal capacity

Per: _____

Name:

Title:

Schedule B

Description of Real Property

Legal Description:

PIN: 22280-0071 (LT)

Part of Lot 8 German Company Tract Township of Waterloo, Parts 1, 2, 3, 4, 5 & 6 on Plan 58R-4092; Subject to Instruments 369437, 465123E and B45015; Waterloo.

Municipal Address:

65 Northfield Drive West
Waterloo, Ontario

Schedule C

Claims to be deleted and expunged from title to Real Property

1. Nil.

Schedule D

Permitted Encumbrances, Easements and Restrictive Covenants related to the Real Property and the LP Purchased Assets

The Permitted Encumbrances shall include:

- (a) The reservations, limitations, exceptions, provisos and conditions, if any, expressed in any original grants from the Crown relating to the Real Property including, without limitation, the reservation of any mines and minerals in the Crown or in any other Person.
- (b) Applicable municipal by-laws, development agreements, subdivision agreements, site plan agreements, airport zoning regulations and other similar agreements with government authorities or private or public utilities affecting the development or use of the Real Property, other agreements, building and other restrictions, easements, servitudes, rights of way and licences.
- (c) Defects or irregularities in title to the Real Property which are of a minor nature.
- (d) In respect of the Real Property, instrument No. B45015 being a Transfer of Easement in favour of the The Hydro - Electric Power Commission of Ontario for the purpose of installing and maintaining power transmission lines and underground conductors.
- (e) In respect of the Real Property, instrument No. 369437 being a Transfer of Easement in favour of The Public Utilities Commission of the City of Waterloo for the purpose of installing and maintaining underground power lines and cables.
- (f) In respect of the Real Property, instrument No. Z373176 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (g) In respect of the Real Property, instrument No. Z411919 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (h) In respect of the Real Property, instrument No. E465123 being a Transfer of Easement in favour of The Corporation of the City of Waterloo for the purpose of constructing and maintaining a storm and sanitary sewer.

- (i) In respect of the Real Property, instrument No. Z465123 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and 236753 Investment Limited, partially released by instrument No. 571904.
- (j) In respect of the Real Property, instrument No. 767172 being an Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited.
- (k) In respect of the Real Property, instrument No. WR305984 being a Charge registered in favour of National Bank of Canada securing the principal sum of \$165,000,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687890.
- (l) In respect of the Real Property, instrument No. WR312710 being a Charge in favour of BMO Capital Corporation securing the principal sum of \$12,500,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687891.
- (m) Existing Senior Security (as defined in the Sale Agreement).
- (n) Existing Subordinated Security (as defined in the Sale Agreement).
- (o) Existing Nelson Security.
- (p) Liens and Encumbrances to the extent they secure a Priority Claim and to the extent not paid or discharged on Closing (all as defined in the Sale Agreement).
- (q) Any validly perfected purchase money security interest relating to the Purchased Assets.

Schedule E

Section 81.1 Assets

To be completed.

INACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP Applicant

AUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED and 538626 B.C. LTD. Respondents

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

Proceeding commenced at Toronto

SALE APPROVAL AND VESTING ORDER

BLAKE, CASSELS & GRAYDON LLP
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Lawyers for PricewaterhouseCoopers Inc. in its capacity as
the Court-appointed Receiver of Kraus Inc., Kraus Canada Inc.
and Strudex Fibres Limited

**SCHEDULE F
INTELLECTUAL PROPERTY**

1.PATENTS

Registrations:

OWNER	REGISTRATION NUMBER	REGISTRATION DATE	COUNTRY	DESCRIPTION
Nil				

Applications:

OWNER	APPLICATION NUMBER	APPLICATION DATE	COUNTRY	DESCRIPTION
Nil				

2.TRADEMARKS

Registrations:

OWNER	APPLICATION NUMBER	REGISTRATION NUMBER	REGISTRATION DATE	COUNTRY	DESCRIPTION
Strudex Fibres Limited	0348345	186,095	Oct. 13, 1972	Canada	Strudon
	1219156	638,055	Apr. 21, 2005	Canada	Softrelle
	78444052	3482051	August 5, 2008	United States	Softrelle
Kraus Inc.	0398637	219,716	Mar. 25, 1977	Canada	Omega
	0502508	290,596	May 4, 1984	Canada	Ultra Point
	0502510	290,598	May 4, 1984	Canada	Omni Graph
	0502509	290,597	May 4, 1984	Canada	Omni Point
	1199697	629,346	Jan. 5, 2005	Canada	Zipperlock
	1226337	647,821	Sept. 12, 2005	Canada	@work
	1219155	686,562	Apr. 25, 2007	Canada	Kraus
	85439414	Application Serial No. 85439414	Filed Oct. 5, 2011	United States	Tabz
	78444033	3,049,197	Jan. 24, 2006	United States	Kraus
	78354842	3,133,792	Aug. 22, 2006	United States	Zipperlock

Applications:

OWNER	APPLICATION NUMBER	APPLICATION DATE	COUNTRY	DESCRIPTION
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Nil

3.BUSINESS NAMES:

- (a)Varichrome Yarns
- (b)Chrome Print

4.DOMAIN NAMES:

- (a)www.krauscarpet.com
- (b)www.barrettcarpets.com
- (c)www.krausflooring.com
- (d)www.barrettcarpets.com
- (e)www.blueplanetcarpet.com
- (f)www.carpetatwork.com
- (g)www.floorswithmore.com
- (h)www.krauscarpet.com
- (i)www.krauscarpets.com
- (j)www.krausfactoryoutlet.com
- (k)www.krausfloor.com
- (l)www.krausflooring.com
- (m)www.krauslink.com
- (n)www.krausmcmahon.com
- (o)www.krausquebec.com
- (p)www.kraussorce.com
- (q)www.kraussound.com
- (r)www.sorceinc.com
- (s)www.strudex.com

5.COPYRIGHT:

Nil.

SCHEDULE G
SECURED DEBT

1. As of April 30, 2012, \$71,115,000 secured debt facility established in favour of, amongst others, Strudex Fibres Limited, Kraus Canada Inc. and Kraus Inc. under the Credit and Guarantee Agreement dated as of June 28, 2007 as amended, restated, supplemented or otherwise modified from time to time between Strudex Fibres Limited, Kraus Carpet Mills Limited (now Kraus Inc.) and W.G. McMahon Canada Ltd. (now Kraus Canada Inc.), the subsidiaries of Strudex Fibres Limited party thereto, National Bank of Canada, as Canadian Administrative Agent, Bank of Montreal, as U.S. Administrative Agent, the lenders party thereto, National Bank of Canada, as Co-Lead Arranger, as Co-Syndication Agent and Joint Bookrunner and Bank of Montreal, as Co-Lead Arranger, as Co-Syndication Agent and Joint Bookrunner together with all of the documents, agreements, instruments and certificates executed and/or delivered at any time in connection therewith, all as assigned to Red Ash under the master assignment agreement dated May 7, 2012 between, amongst others, Red Ash, National Bank of Canada, as Canadian Administrative Agent, Bank of Montreal, as U.S. Administrative Agent, National Bank of Canada, National Bank of Canada, New York Branch, Bank of Montreal, Bank of Montreal, Chicago Branch, Comerica Bank, Comerica Bank, Canada Branch, The Royal Bank of Scotland, N.V. (formerly known as ABN Amro Bank N.V.), The Royal Bank of Scotland, N.V. (Canada) Branch (formerly known as ABN Amro Bank N.V. Canada), The Toronto-Dominion Bank and the Toronto Dominion (Texas) LLC and a Promissory Note dated as of May 9, 2012 made by, amongst others, Strudex Fibres Limited, Kraus Inc. and Kraus Canada Inc., Kraus USA, Inc. and Barrett Carpet Mills, Inc. in favour of Red Ash (reflecting advances made under the Credit Agreement as Supplementary Advances (as defined in the Consent and Authorization dated May 7, 2012 by and among, amongst others, Strudex Fibres Limited, Kraus Inc., and Kraus Canada Inc.), Kraus USA, Inc., Barrett Carpet Mills, Inc., and Red Ash, along with any interest, costs and other fees accrued and accruing therewith (collectively, the “**Senior Secured Debt**”);
2. As of April 30, 2012, \$19,714,000 secured debt facility established by BMO Capital Corporation in favour of Kraus Inc. under the Amended and Restated Credit Agreement dated November 23, 2010 as amended, restated, supplemented or otherwise modified from time to time between Kraus Inc., Strudex Fibres Limited and BMO Capital Corporation together with all documents, agreements, instruments and certificates executed and/or delivered at any time in connection therewith, all as assigned to Red Ash under the master assignment agreement dated May 7, 2012 between Red Ash and Bank of Montreal, as assignee of all rights, entitlements and interests of BMO Capital Corporation pursuant to the assignment and assumption agreement dated November 1, 2011 between, amongst others, BMO Capital Corporation and Bank of Montreal, along with any interest, costs and other fees accrued and accruing therewith (collectively, the “**Subordinated Secured Debt**”); and
3. As of April 30, 2012, \$35,407,000 secured Amended and Restated Promissory Note dated November 23, 2010 granted to Nelson Kraus Holdings Limited by Strudex Fibres

Limited as amended, restated, supplemented or otherwise modified from time to time as assigned to Nelson Kraus personally together with all documents, agreements, instruments and certificates executed and or delivered at any time in connection therewith, all as assigned to Red Ash under the master assignment agreement dated May 7, 2012 between, amongst others, Red Ash, Nelson Kraus Holdings Limited and Nelson Kraus, along with any interest, costs and other fees accrued and accruing therewith (collectively, the “**Nelson Secured Debt**”).

SCHEDULE H TRANSFERRED CONTRACTS

1. Supplier Agreements

- (a) Master Supplier Agreement with between CCA Global Partners Inc. and Kraus Carpet Mills Inc (now Kraus Inc).

2. License Agreements:

- (a) License Agreement between Dancik International and Strudex Fibres Ltd. d.b.a Kraus Carpet Mills Distribution Group, dated December 17, 2010
- (b) License Agreement between Dancik International and Kraus Carpet Mills Distribution Group (comprising Kraus-McMahon, Kraus-Royal Scot, Kraus-Sound and Kraus-Sorce), dated November 1, 2005, as amended on April 28, 2011.
- (c) Trademark License Agreement between INVISTA North America S.a.r.l, INVISTA Technologies S.a.r.l. and Kraus Inc., dated July 1, 2008, as amended on November 1, 2011.

3. Equipment Agreements:

- (a) Lease Agreement between IBM Canada Ltd. and Kraus Carpet Mills Limited, dated July 27, 2009
- (b) Services Agreement between IBM Canada Ltd. and Kraus Inc., dated August 19, 2009
- (c) Lease Agreement between CBSC Capital Inc. and Kraus Inc.
- (d) IBM Global Services provides maintenance and technical support services to Kraus Canada pursuant to a letter agreement, dated April 5, 2012.
- (e) Lease Agreement between Pitney Bowes of Canada Ltd. and Kraus Carpet Mills Limited, dated July 13, 2011.

4. Insurance Policies:

- (a) Executive Protection Policy from Chubb Insurance Company of Canada effective as of September 26, 2011 (Policy No. 8224-4160, Policy Period: September 26, 2011 to June 1, 2012).
- (b) Marine Open Cargo/Inland Policy from AXA Insurance (Canada) effective as of June 19, 2007 (Policy No. 7823767, Policy Period: Expires June 1, 2012).

- (c) Canadian Fire Insurance Policy from Affiliated FM Insurance Company effective as of June 27, 2011 (Policy No. RW519, Policy Period: June 1, 2011 to June 1, 2012).
- (d) Commercial Umbrella Liability Policy from Liberty International Underwriters effective as of June 1, 2011 (Policy No. UMT0-667230-011, Policy Period: June 1, 2011 to June 1, 2012).
- (e) Private Company Directors, Officers, and Employees Liability and Reimbursement Policy from Zurich Specialties and Technical Lines Management Solutions Group effective as of June 1, 2011 (Policy No. 8430822-04, Policy Period: June 1, 2011 – June 1, 2012).
- (f) Excess D&O Policy from Chubb Insurance Company of Canada effective as of June 1, 2011 (Policy No. 8210-1989, Policy Period: June 1, 2011 to June 1, 2012).
- (g) Workers Compensation and Employers Liability Policy from The Hartford effective as of April 30, 2011 (Policy No. 39 WE JI6368, Policy Period: April 30, 2011 to April 30, 2012).
- (h) Commercial General Liability Policy from Chubb Insurance effective as of June 1, 2011 (Policy No. 35392183, Policy Period: June 1, 2011 to June 1, 2012).
- (i) Crimeguard Comprehensive Crime Policy from Chartis effective as of June 1, 2011 (Policy No. 01-894-78-48, Policy Period: June 1, 2011 to June 1, 2012).

5. Letters of Credit:

- (a) Letter of Credit of Kraus Inc. in favour of Moneris Solutions Corporation, bearing reference no 504-020010692 dated April 14, 2010, as amended

6. Independent Contractor Agreements

- (a) Escrow Agreement between Strudex Fibres Limited, 0894802 B.C. Ltd. and Miller Thomson LLP, dated January 11, 2012.
- (b) Independent Contractor Agreement between Strudex Fibres Limited and 0894802 B.C. Ltd., dated January 16, 2012.
- (c) Indemnification of Trish Saltys and 0894802 B.C. Ltd by Strudex Fibres Limited, dated January 11, 2012.

SCHEDULE I
ESTIMATED PRIORITY CLAIMS

These figures reflect estimates made on June 7, 2012 of the value of Priority Claims as at June 11, 2012.

Deemed Trust – Source Deductions	\$ 0 (Note 1)	N/A
BIA Charges	\$ 24,500 (Note 2)	To be paid by Purchaser to Receiver on Closing
Property Taxes	\$ <u>0</u> (Note 3)	N/A
Total Estimated Priority Claims	<u>\$ 24,500</u> (Note 4)	

Notes:

Note 1 – The estimated Priority Claim in respect of accrued but unremitted employee source deductions owing by KI, KCI and Strudex (the “Companies”) as at June 11, 2012 is nil as the unremitted amounts owing were paid by the Companies prior to June 11, 2012.

Note 2 – The estimated Priority Claim in respect of BIA Charges above includes the following: (1) a reserve in the amount of \$10,000 in respect of unpaid wages and vacation pay arising from Transferred Employees who do not accept new terms of employment from the Purchaser; (2) a reserve in the amount of \$10,000 in respect to the unpaid expenses of travelling salespersons; and (3) a reserve for earned but unremitted pension contributions. The Companies paid all wages and vacation pay arising from terminated and known Non-Transferred Employees as at June 7, 2012.

The estimated BIA Charges do not include any amount that may be a Priority Claim owing to Transferred Employees or Unionized Employees (all of whom will be employed by the Purchaser from and after Closing) in respect of Priority Claims for wages and vacation pay under Sections 81.3 and 81.4 of the BIA at the date of bankruptcy. Pursuant to Section 2.3 of this Agreement, these amounts are Assumed Liabilities.

Note 3 – Management of the Kraus Group has advised that property taxes in respect of the Real Property have been paid in advance for the period ending June 30, 2012.

Note 4 – The estimated Priority Claims do not include (1) Claims of holders of purchase money security interests who may have a Priority Claim because the Encumbrances related thereto are Permitted Encumbrances; or (2) any amount that may be a directors’ and officers’ liability that is not otherwise a Priority Claim.

**SCHEDULE J
LICENCES**

(a) Environmental Licences:

- (a) Certificate of Approval (Air) No. 9650-6GFHWG issued by the Ministry of the Environment to Strudex Fibres Limited on December 16, 2005.
- (b) Certificate of Approval (Air) No. 0554-6GFHTN issued by the Ministry of the Environment to Strudex Fibres Limited on December 16, 2005.
- (c) Renewal of Basic Comprehensive Certificate of Approval (Air) No. 0554-6GFHTN issued by the Ministry of the Environment to Kraus Inc. on January 18, 2011.
- (d) Renewal of Basic Comprehensive Certificate of Approval (Air) No. 9650-6GFHWG issued by the Ministry of the Environment on January 18, 2011.

(b) Equipment Licences:

- (a) Mobile Radio License issued by Industry Canada to Kraus Inc.
- (b) High Pressure Power Plant License issued by the Technical Standards & Safety Authority to Kraus Inc.
- (c) Ontario Elevating Device License issued by the Technical Standards & Safety Authority to Kraus Inc.

(c) Other Licences:

- (a) Sanitary Sewer Surcharge Agreement issued by the Region of Waterloo to Kraus Inc.

**SCHEDULE K
LEASED PREMISES**

1.701 E. Audley Blvd, Vancouver, British Columbia;

2.15210 – 135th Avenue, NW Edmonton, Alberta;

3.1551 Church Ave., Winnipeg, Manitoba; and

4.375 Pendant Drive, Toronto, Ontario

**SCHEDULE L
PERSONAL PROPERTY**

None.

**SCHEDULE M
ASSUMED REAL PROPERTY LEASES**

None.

May 25, 2012

PricewaterhouseCoopers Inc.
PwC Tower
18 York Street, Suite 2600
Toronto, Ontario
M5J 0B2

Attention: John McKenna

Re: Binding Offer for the Acquisition of Substantially All Assets of Strudex Fibres Limited, Kraus Inc., Kraus Canada Inc. and 538626 B.C. Ltd. (collectively, the "Kraus Group")

Kraus Brands LP (the "**Purchaser**") is pleased to submit this binding proposal to acquire substantially all assets of the Kraus Group in the form of the asset purchase agreement executed by the Purchaser and attached hereto as Schedule "A" (the "**Offer**"). Capitalized terms used but not defined herein have the meaning given in the Offer.

The Offer will remain open and irrevocable by the Purchaser and will be capable of acceptance by PricewaterhouseCoopers Inc. ("**PwC**"), in its capacity as court-appointed receiver (the "**Receiver**") of the Kraus Group (subject to PwC being appointed as such), until June 11, 2012 or such later date as agreed to in writing by the Purchaser, subject to the Purchaser's right to modify the Offer by amending or supplementing certain Schedules pursuant to Section 7.9 of the Offer.

Once this Offer is accepted by the Receiver, by the Receiver executing the Offer where so indicated, the Offer will become a binding agreement between the Purchaser and the Receiver, subject to the terms and conditions therein. The closing of the transaction will be conditional upon the issuance of the Bankruptcy Order, the issuance of the Vesting Order and the other conditions precedent more specifically set out in the Offer.

This Offer and all other documents relating thereto will be governed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

We look forward to PwC's acceptance of the Offer, in its capacity as Receiver, once so appointed.

Yours very truly,

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



Name: C. EMMOTT

Title: Investment Director

Appendix “B”

TERM SHEET

Dated as of JUNE 8, 2012

WHEREAS Pinnacle Capital Resources Limited in its capacity as general partner of Red Ash Capital Partners II Limited Partnership (the "**Lender**") has sought the appointment of PricewaterhouseCoopers Inc. ("**PwC**") as receiver (the "**Receiver**") of the assets, undertakings and properties (the "**Assets**") of Strudex Fibres Limited, Kraus Inc., Kraus Canada Inc. and 538626 B.C. Ltd. (collectively, the "**Debtors**") pursuant to section 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3;

AND WHEREAS the Receiver is to be appointed by Order of the Ontario Superior Court of Justice pursuant to a hearing scheduled on June 11, 2012 (the "**Receivership Order**") as of the Effective Time (as defined in the Receivership Order) to either complete a sale of substantially all Assets to Kraus Brands LP (the "**Purchaser**") or to liquidate the Assets;

AND WHEREAS, in either case, the Receiver will incur certain costs and obligations in relation to its appointment as Receiver of the Debtors;

AND WHEREAS the Lender has agreed to fund such costs and obligations of the Receiver in accordance with the terms set out herein, without any requirement for repayment (such funding facility, the "**Facility**");

NOW THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

PURPOSE OF FACILITY: To fund the costs of the exercise of the powers and duties conferred upon the Receiver by the Receivership Order and as contemplated by the asset purchase agreement dated June 11, 2012 by and among the Receiver and the Purchaser, in accordance with the budget attached hereto as "**Schedule A**", which budget may be revised and updated by the Receiver from time to time with the consent of the Lender (as may be revised from time to time, the "**Budget**"), including without limitation the fees and disbursements of the Receiver and its legal counsel.

AVAILABILITY: The Lender (or its designee) will make an initial advance of the Facility to PwC in its capacity as proposed Receiver in the amount of \$527,140 (the "**Initial Advance**"). The Initial Advance will be held in escrow by PwC pending its appointment as Receiver and the satisfaction of the other conditions precedent set out herein. In the event the Receivership Order is not granted, the Receiver will return any excess portion of the Initial Advance not required to fund liabilities incurred by PwC as the proposed Receiver.

Upon the granting of the Receivership Order, the Initial Advance shall be released from escrow for use by the Receiver in accordance with the Budget. Thereafter, the Facility may be drawn down by the Receiver in weekly advances (each, an “**Advance**”) to cover anticipated costs and expenses of the Receivership, as more particularly set out in the Budget. The Receiver shall submit a weekly written request (an “**Advance Request**”) for an Advance in accordance with the Budget.

Upon receipt of an Advance Request, the Lender (or its designee) will provide the requested Advance to the Receiver by wire transfer to an account stipulated by the Receiver by the end of the business day following the day on which the Advance Request is received by the Lender. For greater certainty, the Advance is to be made prior to the time that liability for the anticipated costs and expenses are to be incurred by the Receiver and the Receiver will not incur any obligation to any party unless and until the Receiver is in receipt of sufficient funds to satisfy such obligation in full.

TERM:

The Facility will remain available to the Receiver throughout the course of its appointment under the Receivership Order, unless terminated by the Lender following the occurrence of an Event of Default (as defined below).

NO LIABILITY:

PwC in its capacity as Receiver and in its personal capacity will not have any liability to repay the Advances.

CONDITIONS
PRECEDENT:

The Lender will not be obliged to make any Advance (other than the Initial Advance) under the Facility unless the following conditions precedent have been satisfied or waived:

1. The Receivership Order has been issued.
2. The Receiver has executed and returned a copy of this Term Sheet.
3. The Receiver has delivered an Advance Request to the Lender by no later than 5:00 pm Toronto time on the day prior to which an Advance is to be made.
4. No Event of Default has occurred.

EVENTS OF DEFAULT: The occurrence of any one or more of the following constitutes an "Event of Default" under this Term Sheet:

1. Any termination of the stay of proceedings contained in the Receivership Order.
2. Any termination of the appointment of the Receiver.
3. A final order is entered whereby the Receivership Order is reversed, stayed, modified or amended without the express written consent of the Lender.

REMEDIES: Upon the occurrence of an Event of Default, and at any time thereafter while an Event of Default is continuing, the Lender may declare, after giving notice to the Receiver, that the Facility is terminated and cancelled. For greater certainty, the Receiver shall be entitled to pay any obligations incurred by the Receiver from the Advances, notwithstanding any Event of Default.

REIMBURSEMENT: At the conclusion of the Term, the Receiver shall, after paying all obligations incurred, reimburse to the Lender any excess or residual funds.

GOVERNING LAW: Ontario.

SECURITY: None.

NOTICE: Any notice or request required or permitted to be given in connection with this Term Sheet shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by email or facsimile):

(a) in the case of the Receiver at:

PricewaterhouseCoopers Inc.
PwC Tower, Suite 2600
18 York Street
Toronto, Ontario, Canada
M5H 0B2

Attention: John P. McKenna
Fax No.: (416) 941-8378
Email: john.p.mckenna@ca.pwc.com

(b) in the case of the Lender at:

Red Ash Capital Partners II Limited Partnership
80 New Bond Street
London, UK
W1S 1SB

Attention: Howard Gunn
Fax No.: 0207 317 2051
Email: howard.gunn@hilcouk.com

[Signature Page Follows]

If the above terms and conditions contained herein are acceptable to the Receiver, please execute and return a copy of this Term Sheet.

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of
RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP

Per: _____
Name:
Title:

We acknowledge and accept the within terms and conditions as of the 8th day of June, 2012.

PRICEWATERHOUSECOOPERS INC., solely in its capacity as proposed court-appointed receiver of the assets, undertakings and properties of
STRUDEX FIBRES LIMITED, KRAUS INC., KRAUS CANADA INC. AND 538626 B.C. LTD.

Per: _____
Name: John McKenna
Title: Senior Vice President

SCHEDULE "A"

THE BUDGET

See attached.

PricewaterhouseCoopers Inc.															
Court appointed Receiver of Kraus Inc., Kraus Canada Inc., Strudox Fibres Limited, and 538626 B.C. Ltd.															
Budget															
For the period ending September 7, 2012															
	Week 1 Forecast 8-Jun	Week 2 Forecast 15-Jun	Week 3 Forecast 22-Jun	Week 4 Forecast 29-Jun	Week 5 Forecast 6-Jul	Week 6 Forecast 13-Jul	Week 7 Forecast 20-Jul	Week 8 Forecast 27-Jul	Week 9 Forecast 3-Aug	Week 10 Forecast 10-Aug	Week 11 Forecast 17-Aug	Week 12 Forecast 24-Aug	Week 13 Forecast 31-Aug	Week 14 Forecast 7-Sep	Total
Week Ending (in 000's \$CAD)															
Cash balance - Opening	-	527,140	101,292	129,118	243,924	35,478	130,087	35,333	129,329	27,976	122,587	27,833	36,718	120,587	-
Receipts															
Real Ash Funding	527,140	101,292	129,118	243,924	35,478	130,087	35,333	129,329	27,976	122,587	27,833	36,716	120,587	-	1,667,400
Total Receipts	527,140	101,292	129,118	243,924	35,478	130,087	35,333	129,329	27,976	122,587	27,833	36,718	120,587	-	1,667,400
Disbursements															
Contracts	-	70,628	28,816	-	-	105,087	10,333	111,829	-	-	-	-	-	-	99,444
Real Property Leases	-	48,551	12,476	69,118	123,924	10,476	10,000	10,000	10,000	10,000	10,000	10,000	10,000	103,087	739,954
Contingency	-	20,000	20,000	20,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	170,000
Total Contract and Real Property Leases	-	139,179	61,292	89,118	143,924	20,476	115,087	20,333	121,829	20,476	115,087	20,333	29,218	113,087	1,009,439
Professional Fees (Accrued & Future)	-	387,961	40,000	40,000	100,000	15,000	130,087	35,333	129,329	27,976	122,587	27,833	36,718	7,500	657,961
Total Disbursements	-	527,140	101,292	129,118	243,924	35,476	130,087	35,333	129,329	27,976	122,587	27,833	36,718	7,500	1,667,400
Net Cash Inflow/(Outflow)	527,140	(425,848)	27,827	114,805	(208,447)	94,610	(94,754)	93,996	(101,352)	94,610	(94,754)	8,885	83,869	(120,587)	-
Cash balance - Opening	-	527,140	101,292	129,118	243,924	35,476	130,087	35,333	129,329	27,976	122,587	27,833	36,718	120,587	-
Cash balance - Closing	527,140	101,292	129,118	243,924	35,476	130,087	35,333	129,329	27,976	122,587	27,833	36,718	120,587	-	-

Notes:

1. This budget assumes funding from Real Ash is provided on a weekly basis, in the week prior to when disbursements are required to be made.
2. The timing of budgeted contract payments is based on historical payment cycles and assumes payments are made by the Receiver in the normal course.
3. This budget assumes that prorated rent payments are paid in advance on a bi-weekly basis, starting on or about June 11, 2012.
4. The contingency is in respect to payments that the Receiver is required to pay during the forecast period that were not included in the budget.
5. The budgeted Professional Fees include unpaid accrued and future fees and disbursements in respect of PwC's appointment as Interim Receiver, Court Appointed Receiver and Trustee in Bankruptcy in these proceedings. 5

Appendix "C"

ARTICLE 1
DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

Whenever used in this Agreement the following words and terms shall have the meanings set out below:

“**Accounts Payable**” means amounts relating to the Business owing to any Person as of the Closing Time, which are incurred in connection with the purchase of goods or services in the ordinary course of business of the Kraus Group;

“**Accounts Receivable**” means all accounts receivable, book debts, surpluses, refunds, trade accounts, notes receivable and other debts due or accruing due to any member of the Kraus Group that remain uncollected and unreceived as of the Closing Time, together with all invoices, chattel paper, sale or purchase orders and other records, howsoever stored or recorded, in respect thereof, including any receivables, credits, surpluses or refunds related to Taxes, Employee Plans, freight and duties, together with any security interests or letters of credit granted in favour of the Kraus Group as security therefor and, for greater certainty, includes any Accounts Receivable due or owing from Kraus USA, Inc., Royal Scot Floorcovering LLC, Barrett Carpet Mills, Inc., Northstate ~~Carpet Mills Pty Ltd.~~ and Kraus Floors LLC;

“**Affiliate**” of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, where “control” means the possession, directly or indirectly, of the power to direct the management and policies of such Person whether through the ownership of voting securities or otherwise;

“**Agreement**” means this asset purchase agreement, including all schedules, and all amendments or restatements, as permitted, and references to “**Article**”, “**Section**” or “**Schedule**” mean the specified Article or Section of, or Schedule to, this Agreement;

“**Ancillary Agreements**” means the Bill of Sale, the Assignment and Assumption Agreement, the Assignment and Assumption Agreement (Real Property), the Assumption of Charge Agreement, the Secured Debt Assignment and Assumption Agreement, the Assignment of Intellectual Property and any other agreement, document or instrument contemplated in this Agreement or that the Receiver or the Purchaser enter into in connection with the consummation of the transactions contemplated hereby;

“**Appointment Order**” has the meaning given in the Recitals;

“**Assignment and Assumption Agreement**” means one or more assignment and assumption agreements in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment to and assumption by the Purchaser of all of the Assumed Liabilities (other than those relating to the Real Property), including the rights and obligations under the Transferred Contracts;

“Assignment and Assumption Agreement (Real Property)” means an assignment and assumption agreement in form and substance satisfactory to the Parties Receiver and Kraus Properties LP, acting reasonably, evidencing the assignment to and assumption by the Purchaser Kraus Properties LP of all of the Assumed Liabilities relating to the Real Property;

“Assignment of Intellectual Property” means an agreement in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment of all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Intellectual Property to the Purchaser;

“Assumed Liabilities” has the meaning given in Section 2.3;

“Assumed Real Property Leases” means the Contracts relating to the Leased Premises listed on Schedule M;

“Assumed Secured Debt” has the meaning given to it in Section 2.7(b);

“Assumption of Charge Agreement” means an agreement in form and substance satisfactory to the Parties between the Receiver, Kraus Properties LP and Red Ash pursuant to which the charges on title to the Real Property in favour of Red Ash are assumed by Kraus Properties LP on closing;

“Bankruptcy Orders” means the order or orders of the Court dated June 11, 2012 pursuant to Section 43 of the BIA adjudging each of Strudex, KI and KCI bankrupt;

“Bankruptcy Proceedings” means, collectively, the bankruptcy proceedings with respect to each of Strudex, KI and KCI commenced by the Bankruptcy Orders;

“Bankruptcy Trustee” means PricewaterhouseCoopers Inc. in its capacity as trustee in bankruptcy of each of KI, KCI and Strudex, appointed pursuant to the Bankruptcy Orders;

“BIA” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3;

“BIA Charges” means the charges created by Sections 81.3, 81.4, 81.5 and 81.6 of the BIA;

“Bill of Sale” means a bill of sale in form and substance satisfactory to the Parties, acting reasonably, duly executed by the Receiver, conveying to the Purchaser all of the Receiver’s right, title and interest, if any, and all of the Kraus Group’s right, title and interest in and to the Purchased Assets;

“Books and Records” means all financial records and all other books, records, files and papers relating to the Business and/or the Purchased Assets, including financial, corporate, operations and sales books, records, books of account, advertising material, sales and purchase records, lists of suppliers and customers, business reports, plans and projections and all other documents, surveys, plans, files, records, assessments, correspondence and other data and information, financial or otherwise, including all data, information and databases stored on computer-related or other electronic media and all plans and specifications relating to the plant, buildings,

structures, Improvements and fixtures situated on the Real Property used in the Business (including all electrical, mechanical and structural drawings related thereto);

“**Business**” means the carpet manufacturing and carpet and other flooring distribution business of the Kraus Group;

“**Business Day**” means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario;

“**Capital Stock**” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation and any and all ownership interests in a person (other than a corporation), including membership interests, limited liability company interests, partnership interests, joint venture interests and beneficial interests, and any and all warrants, options or other rights to purchase any of the foregoing, including all such Capital Stock of Kraus USA, Inc., Royal Scot Floorcovering Distribution LLC, Barrett Carpet Mills, Inc., Northstate Capital Mills PTY Ltd. and Kraus Floors LLC;

“**Claims**” includes claims, demands, complaints, grievances, actions, applications, suits, causes of action, orders, charges, indictments, prosecutions or other similar processes;

“**Closing**” means the consummation and effectuation of the transactions contemplated hereby pursuant to the terms and conditions of this Agreement;

“**Closing Date**” is the day on which the Closing occurs;

“**Closing Time**” is the time of day on the Closing Date at which Closing occurs;

“**Collective Agreements**” means all collective bargaining agreements and all other union agreements governing the employment of any of the Employees, including the following:

- (a) the collective agreement dated March 20, 2008 between Strudex and United Food & Commercial Workers Canada, Local 175, as amended by Memorandum of Settlement dated June 13, 2011;
- (b) the collective agreement dated July 1, 2009 between KI and United Food & Commercial Workers Canada, Local 175; and
- (c) the collective agreement dated October 1, 2010 between KCI and Teamsters Local Union No. 213 (affiliated with the International Brotherhood of Teamsters, of the City of Vancouver, Province of British Columbia);

“**Competition Act**” means the *Competition Act*, R.S.C., 1985, c. C-34;

“**Competition Act Approval**” means either: (i) the Commissioner of Competition appointed under the Competition Act shall have issued an advance ruling certificate under section 102 of the Competition Act; or (ii) (A) the Commissioner of Competition shall have advised the Purchaser, in writing, that the Commissioner of Competition has no intention to file an

application under Part VIII of the Competition Act in connection with the transactions contemplated by this Agreement and (B) the waiting period under section 114 of the Competition Act shall have expired or been terminated or shall have waived, pursuant to section 113(c) of the Competition Act, the Parties' obligations under section 114 of the Competition Act;

“Contaminants” means any pollutant, contaminant, waste, toxic, corrosive or hazardous substance, deleterious substance, dangerous substance, or hazardous or special waste as defined in, or prohibited or regulated by, any Environmental Laws, including asbestos, asbestos-containing materials, radioactive materials, urea formaldehyde and PCBs (polychlorinated biphenyls);

“Contracts” means contracts, licences, leases, agreements, obligations, promises, undertakings, understandings, arrangements, documents, commitments, entitlements or engagements to which any member of the Kraus Group is a party, by which any member of the Kraus Group is bound or under which any member of the Kraus Group has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied) relating to the Purchased Assets and/or the Business, as same may be amended and/or restated, and including any and all related quotations, orders, proposals or tenders which remain open for acceptance, warranties, guarantees and documents ancillary thereto. For greater certainty, “Contracts” shall include the Collective Agreements and the Employee Plans;

“Court” has the meaning given in the Recitals;

“Cure Costs” means all amounts that must be paid, if any, to obtain a consent necessary to effect an assignment of a Transferred Contract;

“Deposit Accounts” means the following bank accounts at the following banking institutions:

<u>Account</u>	<u>Name</u>	<u>Bank</u>	<u>Currency</u>
<u>0006-03591-0010924</u>	<u>STRUDEX</u>	<u>National Bank</u>	<u>CAD</u>
<u>0006-03591-0011025</u>	<u>STRUDEX</u>	<u>National Bank</u>	<u>CAD</u>
<u>0006-03591-0073420</u>	<u>KI</u>	<u>National Bank</u>	<u>CAD</u>
<u>0006-07411-0018526</u>	<u>KCI</u>	<u>National Bank</u>	<u>CAD</u>
<u>0006-07411-0018623</u>	<u>KCI</u>	<u>National Bank</u>	<u>CAD</u>
<u>0006-07411-0010363</u>	<u>KCI</u>	<u>National Bank</u>	<u>USD</u>
<u>0006-07411-0010860</u>	<u>KRAUS INC</u>	<u>National Bank</u>	<u>USD</u>
<u>0006-07411-0010967</u>	<u>STRUDEX</u>	<u>National Bank</u>	<u>USD</u>

“**Designated Employees**” means the Non-Unionized Employees to whom offers of employment will be made by the Purchaser under this Agreement;

“**Documents**” means all files, documents, instruments, papers, Books and Records, reports, tapes, microfilms, photographs, letters, budgets, forecasts, ledgers, journals, title policies, customer lists, invoices, regulatory filings, operating data and plans, technical documentation (design specifications, functional requirements, operating instructions, repair data, manuals, flow charts, etc.), user documentation (installation guides, user manuals, training materials, release notes, working papers, etc.), marketing documentation (sales brochures, flyers, pamphlets, web pages, etc.), cost of pricing information, business plans, quality control records and procedures, blueprints, accounting and tax files, all files, customer files and documents (including credit information), personnel files for employees, supplier lists, records, literature and correspondence, including materials relating to Inventory, services, marketing, advertising, promotional materials, Intellectual Property, and other similar materials to the extent related to, used in, held for use in, or with respect to, the Business or the Purchased Assets, in each case whether or not in electronic form, whether or not physically located at a Facility, but excluding any materials exclusively related to any Excluded Assets;

“**Employees**” means any and all (i) employees or contractors of the Kraus Group who are actively at work (including full-time, part-time or temporary employees); and (ii) employees or contractors of the Kraus Group who are on lay-off or other leaves of absence (including maternity leave, parental leave, disability leave, sickness leave, workers’ compensation and other statutory leaves) and for greater certainty includes those employees of the Kraus Group whose employment was terminated by operation of law as a result of the Bankruptcy Orders;

“**Employee Plan**” means all contracts, agreements, plans, arrangements or policies (whether written or oral) providing for:

- (a) wages, salaries, incentive compensation, deferred compensation, bonuses, profit-sharing, severance or termination pay, share appreciation, share option, share purchase or other stock related rights relating to the Business;
- (b) health or other medical benefits (other than the Canada Pension Plan, the Ontario Health Insurance Plan and other similar health plans established and administered by any other province or state and workers’ compensation insurance provided pursuant to applicable Law), life or other insurance (including any self-insured arrangements), dental, disability, salary continuation, vacation, automobile, supplemental unemployment benefits, post-employment, retirement or supplemental retirement benefits (including compensation, pension, health, medical or life insurance benefits);

“**Environmental Permits**” means all permits, certificates, approvals, consents, authorizations, registrations, licences, exemptions, waivers or other Orders issued, granted, conferred, created or required by any Governmental Authority pursuant to any Environmental Laws;

“**Excluded Assets**” means the assets listed in Schedule B;

“**Excluded Liabilities**” has the meaning given in Section 2.4;

“**Excluded Real Property Leases**” means any Contracts relating to the lease or occupation of the Leased Premises unless listed on Schedule M;

“**Existing Nelson Security**” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Nelson Secured Debt;

“**Existing Senior Security**” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Senior Secured Debt;

“**Existing Subordinated Security**” means the security granted in favour of Red Ash (as assignee) by the Kraus Group securing the Subordinated Secured Debt;

“**Facilities**” means the facilities located on the Real Property or the Leased Premises;

“**FF&E**” means all equipment, machinery, fixtures, furniture, motor vehicles, computers, printers, tools, telephone systems, furnishings, artwork and plates and any related capitalized items and other tangible property of every kind, nature and description, or used or useful in the operation of the Business and the Purchased Assets, including any of the foregoing in possession of suppliers, customers and other third parties (including all such property that is damaged);

“**Funding Term Sheet**” means a term sheet between the Receiver and Red Ash in form and substance satisfactory to the Receiver and Red Ash, acting reasonably, pursuant to which Red Ash agrees to fund the Receiver for certain costs and expenses incurred by the Receiver in connection with the Receivership Proceedings;

“**General Intangibles**” means, other than the Intellectual Property, all intangible assets now owned or leased (or acquired or leased by the Kraus Group prior to the Closing Date), including all right, title and interest, if any, the Kraus Group has in or under any Contract, all payment intangibles, interest in business associations, Licenses, permits, approvals and authorizations which the Kraus Group holds for the Business from any Governmental Authority that relate to the Business, proprietary or confidential information, technical information, procedures, uncertificated securities, chequing and any other bank accounts, rights of the Kraus Group to receive payments, rights to receive dividends, distributions, cash, instruments, investment property and rights of indemnification.

“**Governmental Authority**” means governments, regulatory authorities, governmental departments, agencies, commissions, bureaus, officials, ministers, Crown corporations, courts, bodies, boards, tribunals or dispute settlement panels or other law or regulation-making organizations or entities: (a) having or purporting to have jurisdiction on behalf of any nation,

of common law or otherwise of, or any order, judgment, injunction, decree or similar authority enacted, issued, promulgated, enforced or entered by, any Governmental Authority;

“**Leased Premises**” means the premises leased and occupied by any of the Kraus Group and listed on Schedule K, but for greater certainty, shall not include the premises located at 2285 Place Transcanadienne, Dorval, Quebec or the premises located at 10 Ilsley Avenue, Dartmouth, Nova Scotia;

“**Licenses**” means all the licences, permits (including any Environmental Permits), certificates, approvals, consents, registrations, orders, grants, permission and other authorizations and rights held by any members of the Kraus Group and related to the Purchased Assets or the Business and listed on Schedule J;

“**Lien**” means any lien (statutory or otherwise), mortgage, charge, hypothec, trust (whether express, deemed, constructive or remedial), pledge, security interest, prior assignment option, warrant, lease, sublease, right of possession, encumbrance, claim, right or restriction which affects, by way of a conflicting ownership interest or otherwise, the right, title or interest to or in any particular property, and includes Claims relating to Taxes, the BIA Charges and all charges created by the BIA, the Appointment Order, the Bankruptcy Orders or any other order of the Court in the Receivership Proceedings or the Bankruptcy Proceedings;

“**Loss**” means any and all loss, liability, damage, cost or expense actually suffered or incurred by a Party (including the costs and expenses of all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, assessments, judgments, Orders, rulings, dues, penalties, fines, amounts paid in settlement or compromise, including court costs and reasonable legal fees and expenses);

“**Nelson Secured Debt**” has the meaning given in Schedule G.

“**New Collective Agreements**” means collective bargaining agreements to be agreed to by the Purchaser and each of United Food & Commercial Workers Canada, Local 175 and Teamsters Local Union No. 213 to replace or modify each of the Collective Agreements on terms satisfactory to the Purchaser;

~~“**Nelson Secured Debt**” has the meaning given in Schedule G.~~

“**Non-Assumed Secured Debt**” means the secured indebtedness owing by the Kraus Group to Red Ash after the assumption of the Assumed Secured Debt by the Purchaser on Closing;

“**Non-Unionized Employees**” means all Employees who are not Unionized Employees;

“**Non-Transferred Employees**” means all Non-Unionized Employees who are not Transferred Employees. For greater certainty, “Non-Transferred Employees” includes (i) Non-Unionized Employees who are not Designated Employees and (ii) Designated Employees who are not Transferred Employees;

“**Northstate**” means Northstate Carpet Mills Pty Ltd.;

“**Order**” means any legally binding order, decision, determination, judgment, injunction, decree, award or writ of any court, arbitrator or Governmental Authority, or other Person who is authorized to make legally binding determinations;

“**Parties**” means the Receiver and the Purchaser collectively, and “**Party**” means any one of them;

“**Pension Plans**” means the Pension Plan for Employees of Kraus Inc. and Strudex Fibres Limited (FSCO Reg. No. 330621), the Registered Pension Plan for Employees of Kraus Canada Inc. (Manitoba Reg. No. 279992), the Pension Plan for Union Employees of Kraus Inc. (FSCO Reg. No. 942979) and the Pension Plan for Executive Employees of Kraus Inc. (FSCO Reg. No. 551580);

“**Permitted Encumbrances**” means the Liens and Encumbrances listed in Schedule D;

“**Person**” means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

“**Personal Information**” means information about an identifiable individual as defined in Privacy Law;

“**Personal Property**” means:

- (i) all machinery, plants, equipment, trade fixtures, furnishings, goods in process and accessories (including all FF&E) now or previously used in or related to the operation of the Business and situated on the Real Property, the Leased Premises and/or with a bailee as at the date of this Agreement, including all spare parts, supplies and equipment including those described in Schedule L ~~Schedule JL~~, and any machinery and equipment held under a lease or title retention agreement used in or related to the operation of the Business;
- (ii) all maintenance and repair supplies and spares, supplies (including fuels, grease and chemicals and containers in which any of these are stored), related to the operation of the Business which are stored or situate upon the Real Property, the Leased Premises, and/or with a bailee as at the Closing Time;
- (iii) all computer hardware located at the Facilities;
- (iv) all trucks, cars, mobile equipment and other vehicles, plants, machinery and other equipment at or upon the Real Property, the Leased Premises or the Facilities and/or used by the Kraus Group or any one of them in connection with the Business, including, but not limited to, those listed in Schedule L;

“**Red Ash**” means Red Ash Capital Partners II Limited Partnership;

“~~Senior Secured Debt~~” has the meaning given in Schedule G.

“**Secured Debt Assignment and Assumption Agreement**” means an assignment and assumption agreement in form and substance satisfactory to the Parties, acting reasonably, evidencing the assignment to and assumption by the Purchaser of the Assumed Secured Debt;

“Senior Secured Debt” has the meaning given in Schedule G;

“**Software**” means any computer program, operating system, application, system, firmware or software of any nature, point-of-entry system, peripherals, and data whether operational, active, under development or design, nonoperational or inactive, including all object code, source code, comment code, algorithms, processes, formulae, interfaces, navigational devices, menu structures or arrangements, icons, operational instructions, scripts, commands, syntax, screen designs, reports, designs, concepts, visual expressions, technical manuals, tests scripts, user manuals and other documentation therefor, whether in machine-readable form, virtual machine-readable form, programming language, modeling language or any other language or symbols, and whether stored, encoded, recorded or written on disk, tape, film, memory device, paper or other media of any nature, and all databases necessary or appropriate in connection with the operation or use of any such computer program, operating system, application, system, firmware or software.

“**Strudex**” has the meaning given in the Recitals;

“**Subordinated Secured Debt**” has the meaning given in Schedule G.

“**Target Date**” means June 11, 2012;

“**Tax**” and “**Taxes**” means any taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, and including those levied on, or measured by, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, excise, withholding, business, franchising, property, development, occupancy, payroll, health, social services, education and social security taxes, all surtaxes, all customs, duties and import and export taxes, countervail and anti-dumping, all licence, franchise and registration fees and all employment insurance, health insurance and Canada, and other government pension plan premiums or contributions;

“**Transfer Taxes**” has the meaning given in Section 7.3(c);

“**Transferred Contracts**” means, collectively, those Contracts listed on Schedule H, ~~Schedule F and~~ shall include the Assumed Real Property Leases and the Licences, but, for greater certainty, shall not include any Employee Plans;

<u>Schedule</u>	<u>Description</u>
Schedule F	– Intellectual Property
Schedule G	– Secured Debt
+ Schedule H	– Transferred Contracts
Schedule I	– Estimated Priority Claims
Schedule L	– Licenses
Schedule M	– Leased Premises
Schedule L	– Personal Property
Schedule M	– Assumed Real Property Leases

1.5 Conflict

In the event of any conflict between the provisions of the body of this Agreement and the Schedules, the provisions of the body of this Agreement shall prevail.

ARTICLE 2 PURCHASE AND SALE

2.1 Purchase and Sale of Purchased Assets

On the terms and subject to the conditions of this Agreement, at the Closing, the Receiver shall transfer, sell, convey, assign and deliver unto the Purchaser, and the Purchaser shall purchase, acquire and accept from the Receiver all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest, in and to the Purchased Assets, which will, pursuant to the Vesting Order, be free and clear of all Liens and Encumbrances other than Permitted Encumbrances.

2.2 Excluded Assets

Notwithstanding any provision of this Agreement to the contrary, nothing herein shall be deemed to transfer, sell, convey or assign any of the Excluded Assets.

2.3 Assumed Liabilities

On the terms and subject to the conditions of this Agreement, the Purchaser agrees, effective at the Closing Time, to assume and be responsible for and thereafter honour, perform, discharge and pay as and when due the Assumed Secured Debt and the following obligations and liabilities of the Kraus Group:

- (a) all debts, liabilities and obligations related to any Excluded Assets;
- (b) all Accounts Payable other than those Accounts Payable, if any, specifically listed as Assumed Liabilities on Schedule C;
- (c) all debts, liabilities and obligations owing by any member of the Kraus Group to any other member(s) of the Kraus Group or any Affiliate thereof;
- (d) all debts, liabilities and obligations of any member of the Kraus Group pursuant to any warranty, representation or guarantee, whether written, oral or implied, made prior to Closing in any way related to product sold or delivered, or services provided, prior to the Closing in connection with the Business;
- (e) all debts, liabilities and obligations for or related to Taxes that are not expressly listed as Assumed Liabilities;
- (f) other than the Cure Costs, if any, payable in connection with the Transferred Contracts, all debts, liabilities and obligations arising from the ownership or use of the Purchased Assets prior to the Closing;
- (g) all debts, liabilities and obligations to the Employees arising prior to the Closing, except as specifically agreed to by the Purchaser in the New Collective Agreements or as otherwise specifically agreed to by the Purchaser in writing, provided that, other than as provided for in Sections 2.3(d), (e) and (f), nothing in this Agreement shall be deemed to constitute such agreement;
- (h) all debts, liabilities and obligations under or related to the Employee Plans, except as specifically agreed to by the Purchaser in the New Collective Agreements or as otherwise specifically agreed to by the Purchaser in writing, provided that nothing in this Agreement shall be deemed to constitute such agreement;
- (i) all debts, liabilities and obligations under any of the Collective Agreements except to the extent specifically provided for in the New Collective Agreements or as expressly assumed by the Purchaser hereunder;
- (j) all debts, liabilities and obligations under or in relation to the Excluded Real Property Leases;
- (k) all debts, liabilities and obligations relating to, including under any Contract related to, the premises located at 2285 Place Transcanadienne, Dorval, Quebec and 10 Ilsley Avenue, Dartmouth, Nova Scotia;
- (l) all Environmental Liabilities, except as required to be assumed by applicable Law; and
- (m) the Non-Assumed Secured Debt.

however, that the Receiver has sufficient funding for all post-Closing financial and monetary obligations under such Contracts.

- (g) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any Transferred Contract or any right thereunder to the extent that such Transferred Contract is not assignable under applicable Law without the consent of any other Person party thereto where the consent of such Person has not been given or received. For greater certainty, if such consent is required but not obtained, neither the Receiver nor the Purchaser shall be in breach of this Agreement nor shall the Purchase Price be adjusted or the Closing delayed.

2.6 Purchase Price

In consideration for the sale of all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets, to the Purchaser, and upon the terms and conditions of this Agreement, the purchase price, exclusive of all applicable Transfer Taxes, shall be the aggregate of (i) the amount of the Priority Claims paid on Closing, (ii) the amount of the Assumed Secured Debt, and (iii) the amount of the Assumed Liabilities (collectively, the "**Purchase Price**"). All applicable Transfer Taxes shall be paid by the Purchaser by certified cheque or bank draft, subject to the terms hereof and the availability of any exemptions or elections under any applicable legislation for such applicable Transfer Taxes.

2.7 Satisfaction of Purchase Price

The Purchaser shall satisfy the Purchase Price at Closing as follows:

- (a) by making a cash payment (by way of certified cheque, bank draft or wire transfer) to the Receiver to satisfy certain Priority Claims as set out on Schedule I; and
- (b) by assuming an amount equal to (i) ~~\$62,711,721.68~~62,711,722 of the Senior Secured Debt and, (ii) ~~\$17,500,578.32~~10,500,578 of the Subordinated Secured Debt and (iii) \$7,000,000 of the Nelson Secured Debt (collectively, the "**Assumed Secured Debt**") by the execution and delivery by the Purchaser on Closing of the Secured Debt Assignment and Assumption Agreement; and
- (c) by assuming the Assumed Liabilities by the execution and delivery by the Purchaser on Closing of the Assignment and Assumption Agreement and by the execution and delivery by Kraus Properties LP of the Assignment and Assumption Agreement (Real Property).

2.8 Purchase Price Allocation and Priority Claim Calculation

- (a) At the Closing the Purchaser shall prepare and deliver to the Receiver a written initial allocation of the Purchase Price in respect of each of the Purchased Assets. The Purchaser and the Receiver shall use their commercially reasonable efforts to

agree, at or as soon as practicable following the Closing, on such allocation, for purposes of the *Income Tax Act* (Canada).

- (b) The Purchaser acknowledges and agrees that Claims listed on Schedule I hereto constitute Priority Claims to be paid or assumed by the Purchaser at the Closing Time, which Schedule I also includes a line by line estimate of the quantum of such Priority Claims as at the Target Date and indicates which Priority Claims shall be paid on Closing and which Priority Claims shall be assumed on Closing. The quantum of the Priority Claims estimated in Schedule I shall be updated on Closing, as mutually agreed to by the Parties, to reflect an updated estimate and the quantum of such Priority Claims to be paid or assumed on Closing. To the extent a creditor of the Kraus Group has a Claim or is owed an obligation that is not listed on Schedule I~~Schedule G~~, such Claim or obligation shall not constitute a Priority Claim for the purposes of this Agreement unless and until it is determined to be so by final Order of the Court or other Governmental Authority after which time such Claim or obligation shall constitute a Priority Claim assumed under this Agreement and an Assumed Liability.

2.9 Closing

- (a) Unless otherwise agreed by the Parties, the Parties shall use commercially reasonable efforts to cause the Closing to occur on the Target Date.
- (b) Closing shall take place at the offices of Cassels Brock & Blackwell LLP, 40 King Street West, Suite 2100, Toronto, Ontario, Canada, or at such other location as the Parties may agree upon in writing. Any tender of documents or money hereunder may be made upon the Receiver or the Purchaser or upon the solicitors acting for the Party on whom tender is desired.

2.10 Receiver's Deliveries

At the Closing,

- (a) the sale, transfer, assignment, conveyance and delivery by the Receiver all of the Receiver's right, title and interest, if any, and all of the Kraus Group's right, title and interest in and to the Purchased Assets to the Purchaser, free and clear of any Liens and Encumbrances (other than Permitted Encumbrances), shall be effected by the issued and entered Vesting Order and by execution and delivery by the Receiver of (i) the Bill of Sale, (ii) the Secured Debt Assignment and Assumption Agreement, (iii) the Assignment and Assumption Agreement, (iv) ~~a deed or deeds to the Real Property,~~ (v) the Assignment of Intellectual Property, (vi) the Assignment and Assumption Agreement (Real Property) and (vii) any other Ancillary Agreements reasonably required by the Parties, in each case in form and substance satisfactory to the Parties, acting reasonably;

**SCHEDULE A
PURCHASED ASSETS**

- (a)all Accounts Receivable;
- (b)all Inventory;
- (c)all Intellectual Property;
- (d)all Personal Property;
- (e)the Real Property and all rights of the Kraus Group under each Assumed Real Property Lease and any related agreement, in each case together with the Receiver's interest, if any, and the Kraus Group's interest in and to all Improvements and fixtures located thereon or attached thereto, and other appurtenances thereto, and the Receiver's interest, if any, and the Kraus Group's rights in respect thereof;
- (f)all Prepaid Expenses and Deposits (including with respect to the Purchased Assets or the Business), customer deposits and security deposits (whether maintained in escrow or otherwise) and prepaid charges and expenses as they relate to the Purchased Assets or the Business;
- (g)all Documents;
- (h)all Licences, to the extent such Licences are assignable under applicable Law;
- (i)all rights under or arising out of all insurance policies relating to the Purchased Assets or the Business and all claims thereunder, unless non-assignable as a matter of Law;
- (j)any rights, claims or causes of action for claims arising out of the operation of the Business;
- (k)all rights under or pursuant to all warranties, representations and guarantees, whether written, oral or implied, made by suppliers, manufacturers and contractors to the extent relating to products sold, or services provided, in connection with the Business or to the extent affecting any Purchased Asset;
- (l)all goodwill and other General Intangibles associated with the Business and the Purchased Assets, including customer and supplier lists;
- (m)all Capital Stock;
- (n)the Transferred Contracts and all rights of the Kraus Group under each Transferred Contract;

(o)all Deposit Accounts;

(p)~~(o)~~all cash and cash equivalents;

(q)~~(p)~~any Real Property Tax Refund or credits, prepaid expenses and workers compensation refunds and other similar refunds, rebates or credits related to the Business; and

(r)~~(q)~~all proceeds of any or all of the foregoing.

SCHEDULE C
ASSUMED LIABILITIES

None.

1. Notwithstanding anything else herein, pursuant to the Labour Code of British Columbia the Purchaser will be the successor employer to both the certification and collective agreement dated October 1, 2010 between KCI and the Teamsters Local Union No. 213.
2. All obligations, if any, owing to suppliers as of the Closing Time for goods and services ordered by the Kraus Group which are delivered or provided to the Kraus Group on or after May 28, 2012, but excluding any such obligations relating to goods not required and offered back to the suppliers for collection or repossession substantially in the state in which they were delivered.

SCHEDULE D
PERMITTED ENCUMBRANCES

The Permitted Encumbrances shall include:

- (a) The reservations, limitations, exceptions, provisos and conditions, if any, expressed in any original grants from the Crown relating to the Real Property including, without limitation, the reservation of any mines and minerals in the Crown or in any other Person.
- (b) Applicable municipal by-laws, development agreements, subdivision agreements, site plan agreements, airport zoning regulations and other similar agreements with government authorities or private or public utilities affecting the development or use of the Real Property, other agreements, building and other restrictions, easements, servitudes, rights of way and licences.
- (c) Defects or irregularities in title to the Real Property which are of a minor nature.
- (d) In respect of the Real Property, instrument No. B45015 being a Transfer of Easement in favour of the The Hydro - Electric Power Commission of Ontario for the purpose of installing and maintaining power transmission lines and underground conductors.
- (e) In respect of the Real Property, instrument No. 369437 being a Transfer of Easement in favour of The Public Utilities Commission of the City of Waterloo for the purpose of installing and maintaining underground power lines and cables.
- (f) In respect of the Real Property, instrument No. Z373176 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (g) In respect of the Real Property, instrument No. Z411919 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (h) In respect of the Real Property, instrument No. E465123 being a Transfer of Easement in favour of The Corporation of the City of Waterloo for the purpose of constructing and maintaining a storm and sanitary sewer.
- (i) In respect of the Real Property, instrument No. Z465123 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and 236753 Investment Limited, partially released by instrument No. 571904.
- (j) In respect of the Real Property, instrument No. 767172 being an Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited.

- (k) In respect of the Real Property, instrument No. WR305984 being a Charge registered in favour of National Bank of Canada securing the principal sum of \$165,000,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687890.
- (l) In respect of the Real Property, instrument No. WR312710 being a Charge in favour of BMO Capital Corporation securing the principal sum of \$12,500,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687891.
- (m) Existing Senior Security.
- (n) Existing Subordinated Security.
- (o) Existing Nelson Security.
- (p) ~~(p)~~ Liens and Encumbrances to the extent they secure a Priority Claim and to the extent not paid or discharged on Closing.
- (q) ~~(p)~~ Any validly perfected purchase money security interest relating to the Purchased Assets.

**SCHEDULE E
VESTING ORDER**

See attached.

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR) MONDAY, THE 11th
)
JUSTICE MORAWETZ) DAY OF JUNE, 2012
)

B E T W E E N:

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general
partner of RED ASH INVESTMENTS CAPITAL PARTNERS II LIMITED
PARTNERSHIP

Applicant

- and -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED
and 538626 B.C. LTD.

Respondents

APPLICATION UNDER SUBSECTION 46(1) and SECTION 243 OF THE *BANKRUPTCY
AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended

SALE APPROVAL AND VESTING ORDER

THIS MOTION, made by PricewaterhouseCoopers Inc. (“**PwC**”) in its capacity as Interim Receiver (the “**Interim Receiver**”) appointed by Order of this Court dated May 28, 2012 (the “**Interim Receivership Order**”) and in its capacity as the proposed Court-appointed receiver (the “**Proposed Receiver**”) pursuant to section 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the “**BIA**”) now appointed by Order of this Court dated June 11, 2012 (the “**Receivership Order**”) with such appointment to be effective as of the Effective Time as

defined in such Order (the "**Receiver**") of the undertaking, property and assets of Kraus Inc. ("**KI**"), Kraus Canada Inc. ("**KCI**"), Strudex Fibres Limited ("**Strudex**") and 538626 B.C. Ltd. (collectively, the "**Debtor**") for an order approving the sale transaction (the "**Transaction**") contemplated by an asset purchase agreement between the Receiver and Kraus Brands LP (the "**Purchaser**") dated June 11, 2012 (the "**Sale Agreement**") the form of which is appended to the First Report of the Interim Receiver and Proposed Receiver dated May 29, 2012 (the "**Report**"), 30, 2012 (the "**First Report**"), as amended and described in the Second Report of the Interim Receiver and Proposed Receiver dated June 10, 2012 (the "**Second Report**") and vesting in the Purchaser, or any replacement or substitute thereof, the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the Purchased Assets other than the Real Property (as all such terms are defined in the Sale Agreement) (the "**LP Purchased Assets**"), and vesting in Kraus Properties Inc. as general partner of Kraus Properties LP ("**Kraus Properties LP**"), or any replacement or substitute thereof, the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the Real Property as defined in the Sale Agreement and as listed in **Schedule "B"** hereto, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report, the Second Report of the Interim Receiver and Proposed Receiver dated June 1, 2012 (the "**Second Report**") and the Affidavit of Chris Emmott sworn May 25, 2012 (the "**Emmott Affidavit**"), and the supplementary affidavit of Chris Emmott sworn June 7, 2012, and on hearing the submissions of counsel for the Interim Receiver, the Receiver, counsel for the Applicant, **[NAMES OF OTHER PARTIES APPEARING]**, no one appearing for any other person on the service list, although properly served as appears from the affidavit of **[NAME]** sworn **[DATE]** affidavits of Natalina Arvaj sworn May 30, June 5, 6 and 7, 2012, the Affidavits of Tim Lenehan sworn May 30 and June 6, 2012, the Affidavits of Wondimu Feleke sworn May 31, 2012, the Affidavits of Paul Young sworn June 4, 2012 filed, and upon bankruptcy orders having been issued in respect of each of KI, KCI and Strudex earlier this day (the "**Bankruptcy Orders**"),

AND ON BEING ADVISED that the Pension Plan Members (as defined in the First Report) were sent a copy of the Notice as directed by the Interim Receivership Order, and upon bankruptcy orders having been granted earlier this day in respect of KI, KCI and Strudex, and

upon the Receivership Order having been granted earlier this day to be effective immediately prior to the Effective Time (as defined in the Receivership Order),

1. **THIS COURT ORDERS** that that the time for service of the Notice of Motion and the Motion Record, including the First Report and the Second Report, be and is hereby abridged and that the Motion is properly returnable today and further that the requirement for service of the Notice of Motion and Motion Record, including the First Report and Second Report, upon interested parties, other than those served, is hereby dispensed with and that the service of the Notice of Motion and Motion Record, including the First Report and Second Report, as effected by the Interim Receiver and Proposed Receiver is hereby validated in all respects.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Sale Agreement, along with any ancillary agreements contemplated therein, by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets for the Purchase Price as defined in the Sale Agreement all in accordance with the Sale Agreement.

3. **THIS COURT ORDERS AND DECLARES** that, subject to paragraphs 6 and 7 below, upon the delivery of the Receiver's Certificate to the Purchaser substantially in the form attached as **Schedule "A"** hereto (the "**Receiver's Certificate**"), all of the Receiver's right, title and interest, if any, and the Debtor's right, title and interest in and to the LP Purchased Assets shall vest absolutely in the Purchaser, or any replacement or substitute thereof, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Mr. Justice Morawetz dated June 11, 2012; (ii) all charges, security interests, hypothecs, or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the "**Encumbrances**", which term shall not

include the permitted encumbrances, easements and restrictive covenants listed on **Schedule “D”** hereto) and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the LP Purchased Assets are hereby expunged and discharged as against the LP Purchased Assets.

4. **THIS COURT ORDERS AND DECLARES** that upon the delivery of the Receiver’s Certificate to Kraus Properties LP, all of the Receiver’s right, title and interest, if any, and the Debtor’s right, title and interest in and to the Real Property described in the Sale Agreement and listed on **Schedule “B”** hereto shall vest absolutely in Kraus Properties LP, or any replacement or substitute thereof, free and clear of and from any and all Claims and Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule “D”** hereto) and, for greater certainty, this Court orders that all of the Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule “D”** hereto) affecting or relating to the Real Property are hereby expunged and discharged as against the Real Property.

5. **THIS COURT ORDERS** that upon the registration in the Land Registry Office for the Land Titles Division of Waterloo North (No. 58) of an Application for Vesting Order in the form prescribed by the *Land Titles Act*, the Land Registrar is hereby directed to enter Kraus Properties Inc. as the owner of the Real Property as identified in **Schedule “B”** hereto in fee simple, and is hereby directed to delete and expunge from title to the Real Property all of the Claims and Encumbrances listed in **Schedule “C”** hereto.

6. **THIS COURT ORDERS AND DECLARES** that upon the delivery of the Receiver’s Certificate to the Purchaser, all of the Receiver’s right, title and interest, if any, and the Debtor’s right, title and interest in and to the capital stock of Northstate Capital Mills PTY Ltd. described in the Sale Agreement (collectively, the “Northstate Shares”) shall vest absolutely in the Purchaser, in trust for Red Ash Capital Partners II Limited Partnership, or any replacement or substitute thereof, free and clear of and from any and all Claims and Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule “D”** hereto) and, for greater certainty, this Court orders that all of the Encumbrances (except those permitted encumbrances, easements and restrictive covenants listed on **Schedule “D”** hereto) affecting or

relating to the Northstate Shares are hereby expunged and discharged as against the Northstate Shares.

7. THIS COURT ORDERS THAT certain of the LP Purchased Assets described on Schedule "E" are subject to claims purportedly delivered pursuant to s. 81.1 of the BIA at the time of the granting of the bankruptcy orders in respect of KI, KCI and Strudex (individually a "s. 81.1 Asset" and collectively, the "s. 81.1 Assets"). Until such time as the claim to a s. 81.1 Asset is determined, by court order or by agreement amongst the Receiver, the applicable claimant to the s. 81.1 Asset and the Purchaser (the "Determination"), such s. 81.1 Asset shall remain the property of KI, KCI or Strudex respectively and shall not vest in the Purchaser pursuant to paragraph 3 above. Until a Determination in respect of a s. 81.1 Asset, the Purchaser shall segregate and preserve in the same state and condition the s. 81.1 Assets and provide reasonable access to the Receiver and such claimants to the s. 81.1 Assets for the purpose of assessing the rights thereto. On a Determination that the applicable claimant to a s. 81.1 Asset does not have a claim thereto, such s. 81.1 Asset shall immediately vest in the Purchaser in accordance with paragraph 3 above. On a Determination that the applicable claimant to a s.81.1 Asset has a valid claim thereto pursuant to section 81.1 of the BIA, such s.81.1 Asset shall immediately be made available for recovery by the applicable claimant or shall be purchased by the Purchaser, on terms acceptable to the claimant and the Purchaser.

8. 6-THIS COURT ORDERS AND DECLARES that the Receiver and/or any director or officer of each Debtor, following the completion of the Transaction, is authorized to execute, deliver and file any document, including without limitation, any articles of amendment, required in order to effect a change of the corporate name of each of KI, KCI and Strudex, and waives any third party requirement or required consent pursuant to any Canadian federal or provincial legislation.

9. 7-THIS COURT ORDERS AND DIRECTS that the documents marked as Confidential Appendices A, B and C to the First Report contain confidential information and shall remain confidential and shall not form part of the permanent court record pending further order of this Court.

10. 8-THIS COURT ORDERS AND DECLARES that the First Report is deemed to be the First Report of the Receiver and the Second Report is deemed to be the Second Report of the

Receiver, and the conduct and activities of the Interim Receiver, the Proposed Receiver and the Receiver outlined in the First Report and the Second Report are hereby approved.

11. ~~9.~~ **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, as soon as practicable after delivery thereof.

12. ~~10.~~ **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Debtor's records pertaining to the Debtor's past and current employees. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

13. ~~11.~~ **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings; and
- (b) the Bankruptcy Orders,

the vesting of the LP Purchased Assets in the Purchaser and the Real Property in Kraus Properties LP pursuant to this Order shall be binding on the trustee in bankruptcy appointed in respect of the Debtor (and any replacement or substitute thereof) and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

14. ~~12.~~ **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario), section 31 of the Ontario *Mortgages Act* and subsection 63(4) of the Ontario *Personal Property Security Act*.

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

Schedule A – Form of Receiver’s Certificate

Court File No. CV-12-9731-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED ASH INVESTMENTS II LIMITED PARTNERSHIP

Applicant

- and -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED
and 538626 B.C. LTD

Respondents

RECEIVER’S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (the "**Court**") dated June 11, ~~2012~~, 2012 (the "**Order**"), PricewaterhouseCoopers Inc. was appointed as the receiver (the "**Receiver**") of the undertaking, property and assets of Kraus Canada Inc., Kraus Inc., Strudex Fibres Limited and 538626 B.C. Ltd. (collectively, the "**Debtor**") effective as of the Effective Time as defined in such Order.

B. Pursuant to an Order of the Court dated June 11, 2012, the Court approved the sale transaction (the "**Transaction**") contemplated by the asset purchase agreement made as of June 11, 2012 (the "**Sale Agreement**") between the Receiver and Kraus Brands LP (the "**Purchaser**") and provided for the vesting in the Purchaser ~~and~~, Kraus Properties Inc. as general partner of Kraus Properties LP and the Purchaser in trust for Red Ash Capital Partners II Limited Partnership (the "**Purchasing Entities**") the Receiver’s, if any, and the Debtor’s right, title and

interest in and to the Purchased Assets as defined in the Sale Agreement, which vesting is to be effective, subject to paragraph 7 of the Order, upon the delivery by the Receiver to the Purchasing Entities of a certificate confirming (i) the satisfaction of the Purchase Price for the Purchased Assets pursuant to the Sale Agreement; (ii) that the conditions to Closing as set out in Article 5 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchase Price for the Purchased Assets was satisfied on the Closing Date pursuant to the Sale Agreement;
2. The conditions to Closing as set out in Article 5 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and
3. The Transaction has been completed to the satisfaction of the Receiver.
4. This Certificate was delivered by the Receiver at [_____] TIME on _____ [DATE].

PricewaterhouseCoopers Inc., solely in its capacity as Receiver of the undertaking, property and assets of Kraus Canada Inc., Kraus Inc., Strudex Fibres Limited and 538626 B.C. Ltd. and not in its personal capacity

Per: _____

Name:

Title:

Schedule D

Permitted Encumbrances, Easements and Restrictive Covenants related to the Real Property and the LP Purchased Assets

The Permitted Encumbrances shall include:

- (a) The reservations, limitations, exceptions, provisos and conditions, if any, expressed in any original grants from the Crown relating to the Real Property including, without limitation, the reservation of any mines and minerals in the Crown or in any other Person.
- (b) Applicable municipal by-laws, development agreements, subdivision agreements, site plan agreements, airport zoning regulations and other similar agreements with government authorities or private or public utilities affecting the development or use of the Real Property, other agreements, building and other restrictions, easements, servitudes, rights of way and licences.
- (c) Defects or irregularities in title to the Real Property which are of a minor nature.
- (d) In respect of the Real Property, instrument No. B45015 being a Transfer of Easement in favour of the The Hydro - Electric Power Commission of Ontario for the purpose of installing and maintaining power transmission lines and underground conductors.
- (e) In respect of the Real Property, instrument No. 369437 being a Transfer of Easement in favour of The Public Utilities Commission of the City of Waterloo for the purpose of installing and maintaining underground power lines and cables.
- (f) In respect of the Real Property, instrument No. Z373176 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (g) In respect of the Real Property, instrument No. Z411919 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited, partially released by instrument No. 571904.
- (h) In respect of the Real Property, instrument No. E465123 being a Transfer of Easement in favour of The Corporation of the City of Waterloo for the purpose of constructing and maintaining a storm and sanitary sewer.
- (i) In respect of the Real Property, instrument No. Z465123 being a Restrictive Covenant Agreement between The Corporation of the City of Waterloo and 236753 Investment Limited, partially released by instrument No. 571904.

(j) In respect of the Real Property, instrument No. 767172 being an Agreement between The Corporation of the City of Waterloo and Kraus Carpet Mills Limited.

(k) In respect of the Real Property, instrument No. WR305984 being a Charge registered in favour of National Bank of Canada securing the principal sum of \$165,000,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687890.

(l) In respect of the Real Property, instrument No. WR312710 being a Charge in favour of BMO Capital Corporation securing the principal sum of \$12,500,000.00 as assigned to Pinnacle Capital Resources Limited as general partner of Red Ash Capital Partners II Limited Partnership by instrument No. WR687891.

(m) Existing Senior Security (as defined in the Sale Agreement).

(n) Existing Subordinated Security (as defined in the Sale Agreement).

(o) Existing Nelson Security.

(p) ~~(p)~~ Liens and Encumbrances to the extent they secure a Priority Claim and to the extent not paid or discharged on Closing (all as defined in the Sale Agreement).

(q) ~~(p)~~ Any validly perfected purchase money security interest relating to the Purchased Assets.

Schedule E

Section 81.1 Assets

To be completed.

**SCHEDULE F
INTELLECTUAL PROPERTY**

1.PATENTS

Registrations:

OWNER	REGISTRATION NUMBER	REGISTRATION DATE	COUNTRY	DESCRIPTION
Nil				

Applications:

OWNER	APPLICATION NUMBER	APPLICATION DATE	COUNTRY	DESCRIPTION
Nil				

2.TRADEMARKS

Registrations:

OWNER	<u>APPLICATION NUMBER</u>	REGISTRATIO N NUMBER	REGISTRATIO N DATE	COUNTRY	DESCRIPTION
Strudex Fibres Limited	<u>0348345</u>	186,095	Oct. 13, 1972	Canada	Strudon
	<u>1219156</u>	638,055	Apr. 21, 2005	Canada	Softrelle
	<u>78444052</u>	<u>3482051</u>	<u>August 5, 2008</u>	<u>United States</u>	<u>Softrelle</u>
Kraus Inc.	<u>0398637</u>	219,716	Mar. 25, 1977	Canada	Omega
	<u>0502508</u>	290,596	May 4, 1984	Canada	Ultra Point
	<u>0502510</u>	290,598	May 4, 1984	Canada	Omni Graph
	<u>0502509</u>	290,597	May 4, 1984	Canada	Omni Point
	<u>1199697</u>	629,346	Jan. 5, 2005	Canada	Zipperlock
	<u>1226337</u>	647,821	Sept. 13 , 12, 2005	Canada	@work
	<u>1219155</u>	686,562	Apr. 25, 2007	Canada	Kraus
	<u>85439414</u>	Application Serial No. 85439414	Filed Oct. 5, 2011	United States	Tabz

Kraus Carpet Mills Limited	<u>78444033</u>	3,049,197	Jan. 24, 2006	United States	Kraus
	<u>78354842</u>	3,133,792	Aug. 22, 2006	United States	Zipperlock

Applications:

OWNER	APPLICATION NUMBER	APPLICATION DATE	COUNTRY	DESCRIPTION
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Nil

3. BUSINESS NAMES:

(a)Varichrome Yarns

(b)Chrome Print

~~Nil.~~

4. DOMAIN NAMES:

- (a) www.krauscarpet.com
- (b) www.barrettcarpets.com
- (c) www.krausflooring.com
- (d) www.barrettcarpets.com
- (e) www.blueplanetcarpet.com
- (f) www.carpetatwork.com
- (g) www.floorswithmore.com
- (h) www.krauscarpet.com
- (i) www.krauscarpets.com
- (j) www.krausfactoryoutlet.com
- (k) www.krausfloor.com
- (l) www.krausflooring.com
- (m) www.krauslink.com
- (n) www.krausmcmahon.com
- (o) www.krausquebec.com
- (p) www.kraussorce.com
- (q) www.kraussound.com
- (r) www.sorceinc.com
- (s) www.strudex.com

5. COPYRIGHT:

Nil.

**SCHEDULE H
TRANSFERRED CONTRACTS**

1. Supplier Agreements

- (a) Master Supplier Agreement with between CCA Global Partners Inc. and Kraus Carpet Mills Inc (now Kraus Inc).

2. License Agreements:

- (a) License Agreement between Dancik International and Strudex Fibres Ltd. d.b.a Kraus Carpet Mills Distribution Group, dated December 17, 2010
- (b) License Agreement between Dancik International and Kraus Carpet Mills Distribution Group (comprising Kraus-McMahon, Kraus-Royal Scot, Kraus-Sound and Kraus-Sorce), dated November 1, 2005, as amended on April 28, 2011.
- (c) Trademark License Agreement between INVISTA North America S.a.r.l, INVISTA Technologies S.a.r.l. and Kraus Inc., dated July 1, 2008, as amended on November 1, 2011.

3. Equipment Agreements:

- (a) Lease Agreement between IBM Canada Ltd. and Kraus Carpet Mills Limited, dated July 27, 2009
- (b) Services Agreement between IBM Canada Ltd. and Kraus Inc., dated August 19, 2009
- (c) Lease Agreement between CBSC Capital Inc. and Kraus Inc.
- (d) IBM Global Services provides maintenance and technical support services to Kraus Canada pursuant to a letter agreement, dated April 5, 2012.
- (e) Lease Agreement between Pitney Bowes of Canada Ltd. and Kraus Carpet Mills Limited, dated July 13, 2011.

4. Insurance Policies:

- (a) Executive Protection Policy from Chubb Insurance Company of Canada effective as of September 26, 2011 (Policy No. 8224-4160, Policy Period: September 26, 2011 to June 1, 2012).
- (b) Marine Open Cargo/Inland Policy from AXA Insurance (Canada) effective as of June 19, 2007 (Policy No. 7823767, Policy Period: Expires June 1, 2012).

- (c) Canadian Fire Insurance Policy from Affiliated FM Insurance Company effective as of June 27, 2011 (Policy No. RW519, Policy Period: June 1, 2011 to June 1, 2012).
- (d) Commercial Umbrella Liability Policy from Liberty International Underwriters effective as of June 1, 2011 (Policy No. UMT0-667230-011, Policy Period: June 1, 2011 to June 1, 2012).
- (e) Private Company Directors, Officers, and Employees Liability and Reimbursement Policy from Zurich Specialties and Technical Lines Management Solutions Group effective as of June 1, 2011 (Policy No. 8430822-04, Policy Period: June 1, 2011 – June 1, 2012).
- (f) Excess D&O Policy from Chubb Insurance Company of Canada effective as of June 1, 2011 (Policy No. 8210-1989, Policy Period: June 1, 2011 to June 1, 2012).
- ~~(g) Automobile Insurance Policy from Chubb Insurance effective as of June 1, 2011 (Policy No. C03375982, Policy Period: June 1, 2011 to June 1, 2012).~~
- ~~(g)(h) Workers Compensation and Employers Liability Policy from The Hartford effective as of April 30, 2011 (Policy No. 39 WE JI6368, Policy Period: April 30, 2011 to April 30, 2012).~~
- ~~(i) Commercial Auto Policy from Sentine Insurance Company, Limited effective as of April 30, 2011 (Policy No. 39 UEN JT0672, Policy Period: April 30, 2011–April 30, 2012).~~
- ~~(h)(j) Commercial General Liability Policy from Chubb Insurance effective as of June 1, 2011 (Policy No. 35392183, Policy Period: June 1, 2011 to June 1, 2012).~~
- ~~(i)(k) Crimeguard Comprehensive Crime Policy from Chartis effective as of June 1, 2011 (Policy No. 01-894-78-48, Policy Period: June 1, 2011 to June 1, 2012).~~

5. Letters of Credit:

- (a) Letter of Credit of Kraus Inc. in favour of Moneris Solutions Corporation, bearing reference no 504-020010692 dated April 14, 2010, as amended

6. Independent Contractor Agreements

- (a) Escrow Agreement between Strudex Fibres Limited, 0894802 B.C. Ltd. and Miller Thomson LLP, dated January 11, 2012.
- (b) Independent Contractor Agreement between Strudex Fibres Limited and 0894802 B.C. Ltd., dated January 16, 2012.

**SCHEDULE I
ESTIMATED PRIORITY CLAIMS**

These figures reflect estimates made on May 25, June 7, 2012 of what the value of Priority Claims as at June 11, 2012 will be. ~~These figures are to be updated on Closing to reflect an updated estimate of Priority Claims as of Closing, 2012.~~

Deemed Trust – Source Deductions	\$ 153,735 <u>0</u> (Note 1)	To be assumed by Purchaser on Closing N/A
BIA Charges	\$ 220,000 <u>24,500</u> (Note 2)	To be paid by Purchaser to Receiver on Closing
Property Taxes	\$ <u>0</u> (Note 3)	N/A
Total Estimated Priority Claims	\$ 373,735 <u>24,500</u> (Note 4)	

Notes:

Note 1 – The estimated Priority Claim in respect of accrued but unremitted employee source deductions owing by KI, KCI and Strudex (the “Companies”) as at June 11, 2012 is nil as the unremitted amounts owing were paid by the Companies prior to June 11, 2012.

Note 2 – The estimated Priority Claim in respect of BIA Charges above includes the following: (1) a reserve in the amount of \$10,000 in respect of unpaid wages and vacation pay arising from Non-Transferred Employees (who, for the purposes of calculating the quantum of this item, shall be the Non-Unionized Employees who are not Designated Employees and the Designated Employees who decline the Purchaser’s offer of employment by 10:00 a.m. (Toronto Time) on the Closing Date) and employees of the Kraus Group terminated prior to the Bankruptcy Orders taking effect; and who do not accept new terms of employment from the Purchaser; (2) a reserve in the amount of \$10,000 in respect to the unpaid expenses of travelling salespersons; and (3) a reserve for earned but unremitted pension contributions to the Kraus Group’s defined contribution pension plans for all Employees and all former employees. The Companies paid all wages and vacation pay arising from terminated and known Non-Transferred Employees as at June 7, 2012.

The estimated BIA Charges do not include any amount that may be a Priority Claim owing to Transferred Employees or Unionized Employees (all of whom will be employed by the Purchaser from and after Closing) in respect of Priority Claims for wages and vacation pay under Sections 81.3 and 81.4 of the BIA at the date of bankruptcy. Pursuant to Section 2.3 of this Agreement, these amounts are Assumed Liabilities.

Note 3 – Management of the Kraus Group has advised that property taxes in respect of the Real Property have been paid in advance for the period ending June 30, 2012.

Note 4 – The estimated Priority Claims do not include (1) Claims of holders of purchase money security interests who may have a Priority Claim because the Encumbrances related thereto are Permitted Encumbrances; or (2) any amount that may be a directors' and officers' liability that is not otherwise a Priority Claim.

SCHEDULE J LICENCES

(a) Environmental Licences:

- (a) ~~Water permit number 72-P-0432 from the Government of Ontario to Strudex Fibres Ltd. dated May 5, 2010.~~
- ~~(a)(b)~~ Certificate of Approval (Air) No. 9650-6GFHWG issued by the Ministry of the Environment to Strudex Fibres Limited on December 16, 2005.
- ~~(b)(e)~~ Certificate of Approval (Air) No. 0554-6GFHTN issued by the Ministry of the Environment to Strudex Fibres Limited on December 16, 2005.
- ~~(c)(d)~~ Renewal of Basic Comprehensive Certificate of Approval (Air) No. 0554-6GFHTN issued by the Ministry of the Environment to Kraus Inc. on January 18, 2011.
- ~~(d)(e)~~ Renewal of Basic Comprehensive Certificate of Approval (Air) No. 9650-6GFHWG issued by the Ministry of the Environment on January 18, 2011.

(b) Equipment Licences:

- (a) Mobile Radio License issued by Industry Canada to Kraus Inc.
- (b) High Pressure Power Plant License issued by the Technical Standards & Safety Authority to Kraus Inc.
- (c) Ontario Elevating Device License issued by the Technical Standards & Safety Authority to Kraus Inc.

(c) Other Licences:

- (a) Sanitary Sewer Surcharge Agreement issued by the Region of Waterloo to Kraus Inc.

SCHEDULE K
LEASED PREMISES

1.701 E. Audley Blvd, Vancouver, British Columbia;

2.15210 – 135th Avenue, NW Edmonton, Alberta;

3.1551 Church Ave., Winnipeg, Manitoba; and

4.375 Pendant Drive, Toronto, Ontario; ~~and~~

5. ~~10 Hsley Avenue, Dartmouth, Nova Scotia.~~