
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-31051

SMTC CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

98-0197680
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

635 HOOD ROAD
MARKHAM, ONTARIO, CANADA L3R 4N6
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(905) 479-1810
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See: definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 30, 2007, SMTC Corporation had 13,854,799 shares of common stock, par value \$0.01 per share, and one share of special voting stock, par value \$0.01 per share, outstanding. As of September 30, 2007, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 7,948,311 exchangeable shares outstanding, including 7,156,777 exchangeable shares held by SMTC Corporation's wholly-owned subsidiary, SMTC Nova Scotia Company. Each exchangeable share is exchangeable into one share of common stock of SMTC Corporation.

[Table of Contents](#)

SMTC CORPORATION
Table of Contents

[PART I FINANCIAL INFORMATION](#)

<i>Item 1</i>	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Operations</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
<i>Item 2</i>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<i>Item 3</i>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
<i>Item 4</i>	<u>Controls and Procedures</u>	27

[PART II OTHER INFORMATION](#)

<i>Item 1A</i>	<u>Risk factors</u>	28
<i>Item 6</i>	<u>Exhibits</u>	29

[Table of Contents](#)

Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets as of:

(Expressed in thousands of U.S. dollars)

(Unaudited)

		September 30, 2007	December 31, 2006
Assets			
Current assets:			
Cash		\$ 328	\$ —
Accounts receivable - net	Note 3	34,887	45,160
Inventories	Note 3	36,852	42,851
Prepaid expenses		1,497	1,280
		<u>73,564</u>	<u>89,291</u>
Property, plant and equipment - net	Note 3	23,358	24,804
Deferred financing fees	Note 3	1,438	1,310
Deferred income taxes	Note 8	652	557
		<u>\$ 99,012</u>	<u>\$ 115,962</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable		\$ 39,476	\$ 36,730
Accrued liabilities	Note 3	8,087	10,253
Income taxes payable		412	1,979
Current portion of long-term debt	Note 3	3,071	22,405
Current portion of capital lease obligations		645	541
		<u>51,691</u>	<u>71,908</u>
Long-term debt	Note 3	20,008	18,632
Capital lease obligations		1,508	1,531
Commitments and contingencies	Note 11		
Shareholders' equity:			
	Note 4		
Capital stock		7,854	11,969
Warrants		10,372	10,372
Loans receivable		(5)	(5)
Additional paid-in capital		248,812	244,501
Deficit		<u>(241,228)</u>	<u>(242,946)</u>
		<u>25,805</u>	<u>23,891</u>
		<u>\$ 99,012</u>	<u>\$ 115,962</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Consolidated Statements of Operations

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenue	\$ 54,046	\$ 65,677	\$ 189,633	\$ 186,727
Cost of sales	50,621	59,815	173,886	167,965
Gross profit	3,425	5,862	15,747	18,762
Selling, general and administrative expenses	2,676	3,381	10,366	11,522
Restructuring	Note 5			
Restructuring charges (recoveries)	242	(1,350)	242	(1,350)
Gain on sale of assets	—	(1,228)	—	(1,228)
Loss on extinguishment of debt	Note 6	371	371	—
Other expenses	Note 7	—	826	826
Operating earnings		136	4,768	8,992
Interest expense	Note 3	1,265	4,529	3,400
Earnings (loss) before income taxes		(1,129)	239	5,592
Income tax expense (recovery)	Note 8			
Current		64	(1,381)	(1,882)
Deferred		—	(98)	—
		64	(1,479)	(1,882)
Net (loss) earnings before discontinued operations		(1,193)	1,718	7,474
Net earnings from discontinued operations	Note 12	—	874	874
Net earnings (loss), also being comprehensive income		\$ (1,193)	\$ 6,061	\$ 8,348
Basic earnings (loss) per share	Note 9			
- continuing operations		\$ (0.08)	\$ 0.35	\$ 0.12
- discontinued operations		\$ —	\$ 0.06	\$ 0.06
Basic earnings per share		\$ (0.08)	\$ 0.41	\$ 0.57
Diluted earnings per share		\$ (0.08)	\$ 0.41	\$ 0.56
Weighted average number of shares outstanding				
Basic		14,646,333	14,646,333	14,641,333
Diluted	Note 9	14,646,333	14,897,406	14,947,018

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

Nine months ended September 30, 2007 and October 1, 2006

(Unaudited)

	<u>Capital stock</u>	<u>Warrants</u>	<u>Loans receivable</u>	<u>Additional paid-in capital</u>	<u>Deficit</u>	<u>Shareholders' equity</u>
Balance, December 31, 2006	\$ 11,969	\$10,372	\$ (5)	\$ 244,501	\$(242,946)	\$ 23,891
Stock-based compensation	—	—	—	196	—	196
Conversion of shares from exchangeable to common stock	(4,115)	—	—	4,115	—	—
Net earnings	—	—	—	—	1,718	1,718
Balance, September 30, 2007	<u>\$ 7,854</u>	<u>\$10,372</u>	<u>\$ (5)</u>	<u>\$ 248,812</u>	<u>\$(241,228)</u>	<u>\$ 25,805</u>

	<u>Capital stock</u>	<u>Warrants</u>	<u>Loans receivable</u>	<u>Additional paid-in capital</u>	<u>Deficit</u>	<u>Total Shareholders' equity</u>
Balance, December 31, 2005	\$ 16,986	\$10,372	\$ (5)	\$ 239,380	\$(252,711)	\$ 14,022
Stock-based compensation	—	—	—	149	—	149
Conversion of shares from exchangeable to common stock	(3,353)	—	—	3,353	—	—
Net earnings	—	—	—	—	8,348	8,348
Balance, October 1, 2006	<u>\$ 13,633</u>	<u>\$10,372</u>	<u>\$ (5)</u>	<u>\$ 242,882</u>	<u>\$(244,363)</u>	<u>\$ 22,519</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ (1,193)	\$ 6,061	\$ 1,718	\$ 8,348
Items not involving cash:				
Depreciation	1,225	1,159	3,756	3,457
Loss (gain) on disposition of property, plant and equipment	9	(1,228)	9	(1,228)
Other	—	—	—	46
Deferred income taxes	8	(18)	(95)	19
Non-cash interest	422	156	1,518	1,049
Stock-based compensation	(1,003)	94	135	392
Loss on extinguishment of debt	269	—	269	—
Change in non-cash operating working capital:				
Accounts receivable	4,636	(5,795)	10,273	(17,549)
Inventories	(310)	(3,602)	5,999	(16,498)
Prepaid expenses	96	(92)	(217)	64
Income taxes recoverable/payable	58	756	(1,567)	720
Accounts payable	5,057	5,881	2,746	14,399
Accrued liabilities	539	331	(2,104)	(3,130)
Net earnings from discontinued operations	—	(874)	—	(874)
	<u>9,813</u>	<u>2,829</u>	<u>22,440</u>	<u>(10,785)</u>
Financing:				
Increase (decrease) in long-term debt	21,500	(2,456)	21,500	15,237
Repayment of long-term debt	(30,378)	(998)	(40,012)	(2,898)
Principal payment of capital lease obligations	(158)	(540)	(480)	(1,403)
Proceeds from discontinued operations	—	874	—	874
Deferred financing fees	(1,362)	(606)	(1,362)	(606)
	<u>(10,398)</u>	<u>(3,726)</u>	<u>(20,354)</u>	<u>11,204</u>
Investing:				
Purchase of property, plant and equipment	(287)	(331)	(1,758)	(1,647)
Proceeds from sale of property, plant and equipment	—	1,228	—	1,228
	<u>(287)</u>	<u>897</u>	<u>(1,758)</u>	<u>(419)</u>
Increase (decrease) in cash and cash equivalents	(872)	—	328	—
Cash and cash equivalents, beginning of period	1,200	—	—	—
Cash and cash equivalents, end of the period	<u>\$ 328</u>	<u>\$ —</u>	<u>\$ 328</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of the business

SMTC Corporation, its subsidiaries and joint ventures (collectively, “SMTC” or the “Company”) is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through manufacturing and technology centers located in the United States, Canada and Mexico.

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the accounting principles and methods of application disclosed in the audited consolidated financial statements for the year ended December 31, 2006. The accompanying unaudited interim consolidated financial statements include adjustments that are, in the opinion of management, necessary for a fair presentation under Generally Accepted Accounting Principles in the United States (“U.S. GAAP”). These unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2006.

Certain comparative figures for 2006 have been reclassified to conform to the financial statement presentation adopted in 2007.

2. Accounting changes

Accounting for uncertainty in income taxes:

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition and was applicable to the Company beginning January 1, 2007.

FIN 48 requires the Company to determine if it is more likely than not that the tax position will be sustained based on the technical merits of the position and for those tax positions that meet the more likely than not threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely of being realized when ultimately settled with the tax authorities. The adoption of FIN 48 did not have a material impact on the Company’s consolidated financial statements. See note 8 for additional disclosures related to income taxes.

3. Consolidated financial statement details

The following consolidated financial statement details are presented as of the period ended for the consolidated balance sheets and for the three and nine months ended for each of the consolidated statements of operations and consolidated statements of cash flows.

Consolidated statements of operations

Interest expense:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2007</u>	<u>October 1, 2006</u>	<u>September 30, 2007</u>	<u>October 1, 2006</u>
Long-term debt	\$ 1,212	\$ 995	\$ 4,376	\$ 3,334
Obligations under capital leases	53	14	153	66
Interest expense	<u>\$ 1,265</u>	<u>\$ 1,009</u>	<u>\$ 4,529</u>	<u>\$ 3,400</u>

Table of Contents

Consolidated statements of cash flows

Supplemental disclosures:

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Cash interest paid	\$ 913	\$ 751	\$ 3,104	\$ 2,195
Cash taxes paid (received) - net	\$ 35	\$ (2,709)	\$ 235	\$ (2,709)
Property, plant and equipment acquired through capital lease	\$ 561	\$ 1,255	\$ 561	\$ 1,255

Consolidated balance sheets

Accounts receivable – net:

	September 30, 2007	December 31, 2006
Accounts receivable	\$ 35,820	\$ 46,175
Less: Allowance for doubtful accounts	(933)	(1,015)
Accounts receivable – net	\$ 34,887	\$ 45,160

Inventories:

	September 30, 2007	December 31, 2006
Raw materials	\$ 24,759	\$ 28,622
Work in process	7,744	10,212
Finished goods	3,657	3,290
Other	692	727
Inventories	\$ 36,852	\$ 42,851

Property, plant and equipment – net:

	September 30, 2007	December 31, 2006
Cost:		
Land	\$ 1,648	\$ 1,648
Buildings	9,677	9,605
Machinery and equipment ^(a)	30,465	28,809
Office furniture and equipment	4,369	4,291
Computer hardware and software	8,920	8,460
Leasehold improvements	13,671	13,648
	<u>68,750</u>	<u>66,461</u>
Less accumulated depreciation:		
Land	—	—
Buildings	(3,622)	(3,165)
Machinery and equipment ^(a)	(20,900)	(18,596)
Office furniture and equipment	(4,196)	(4,022)
Computer hardware and software	(8,338)	(8,197)
Leasehold improvements	(8,336)	(7,677)
	<u>(45,392)</u>	<u>(41,657)</u>
Property, plant and equipment - net	\$ 23,358	\$ 24,804

- (a) Included within Machinery and equipment were assets under capital leases with costs of \$6,375 and \$5,814, and associated accumulated depreciation of \$1,829 and \$1,192, as of September 30, 2007 and December 31, 2006, respectively. The related depreciation expense for the three months ended September 30, 2007 and October 1, 2006 was \$221 and \$128, respectively. Related depreciation expense for the nine months ended September 30, 2007 and October 1, 2006 was \$636 and \$385, respectively.

Table of Contents

Deferred financing fees:

	September 30, 2007	December 31, 2006
Deferred financing costs	\$ 2,994	\$ 3,901
Less: accumulated amortization	(1,556)	(2,591)
Deferred financing fees - net	<u>\$ 1,438</u>	<u>\$ 1,310</u>

Accrued liabilities:

	September 30, 2007	December 31, 2006
Customer related	\$ 971	\$ 2,016
Interest and financing related	434	594
Payroll	3,257	4,110
Professional services	913	1,134
Restructuring	113	353
Vendor related	287	432
Miscellaneous taxes	111	234
Other	2,001	1,380
Accrued liabilities	<u>\$ 8,087</u>	<u>\$ 10,253</u>

Long-term debt:

	September 30, 2007	December 31, 2006
Senior debt:		
Revolving	\$ 1,579	\$ 7,135
Term	21,500	11,658
Subordinated debt	—	21,893
Other	—	351
	23,079	41,037
Less: Current portion of long-term debt	<u>(3,071)</u>	<u>(22,405)</u>
Long-term debt	<u>\$ 20,008</u>	<u>\$ 18,632</u>

In connection with the initial public offering completed on July 27, 2000, the Company and certain of its subsidiaries entered into a credit agreement (the "Credit Agreement") that provided for an initial term loan and amounts made available under revolving credit loans, swing line loans and letters of credit. Between July 27, 2000 and May 31, 2004, the Company and its pre-existing lenders, Lehman Commercial Paper Inc., The Bank of Nova Scotia, General Electric Capital Corporation, IBM Credit Corporation, Silver Point Capital L.P., Royal Bank of Canada, Comerica Bank, AMMC CDO I Limited and AMMC CDO II Limited, which we refer to in this report as the "Pre-existing Lenders," amended the Credit Agreement from time to time.

On June 1, 2004, the Company announced that it completed a recapitalization. The June 1, 2004 recapitalization consisted of three main components: (i) a private placement of equity securities, (ii) a new secured credit facility and (iii) a transaction with the Company's Pre-existing Lenders to repay a portion of and restructure a portion of the Company's existing debt obligations under the Credit Agreement. This facility originally consisted of a 3-year \$40 million revolving credit facility and a \$1.4 million term loan facility (collectively the "Wachovia Facilities") with Wachovia Capital Finance of Canada (formerly Congress Financial Corporation) and its affiliates ("Wachovia"). The Wachovia Facilities were subsequently amended on several occasions, the last of which was March 2007. In March 2007, the Company and Wachovia signed an amendment to the Wachovia Facilities which extended the term of the revolving credit facility and the original term loan to April 15, 2008.

On August 3, 2007, the Company and its subsidiaries entered into new five year agreements with Wachovia, the Company's existing senior lender, and Monroe Capital Management Advisors LLC in both Canada and the United States (collectively, the "Wachovia Monroe Facilities"). The Wachovia Monroe Facilities provide for a \$40 million revolving credit facility and a \$21.5 million term loan. The proceeds of the loans were used to repay existing debt and will provide for future working capital needs. The availability under the revolving credit facilities are subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company. The revolving credit facilities bear interest at the U.S. Prime rate. The term loan bears interest at LIBOR plus 4% with the rate declining at predetermined levels based on the Company's overall leverage. The Wachovia Monroe Facilities replace all previous credit facilities, including the senior revolving credit facilities and term debt provided by Wachovia, and subordinated term debt held by a syndicate of lenders.

Table of Contents

Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor that any such conditions will exist over the remaining term of the revolving credit facilities. Furthermore, the lenders have not informed the Company that any such condition or event has occurred. Accordingly, the debt is classified as long-term as of September 30, 2007.

The portion of this senior debt denominated in Canadian dollars ("CDN") was \$768 and \$2,201 as of September 30, 2007 and December 31, 2006, respectively.

The \$21.5 million term loan is repayable in quarterly equal installments of \$768 with the remaining amounts outstanding due at maturity

The Wachovia Monroe Facilities are jointly and severally guaranteed by and secured by the assets of the Company and the assets and capital stock of each of the Company's subsidiaries (other than certain foreign subsidiaries) and its future subsidiaries.

The Company is in compliance with the financial covenants included in the Wachovia Monroe Facilities at September 30, 2007. Continued compliance with the financial covenants for the next twelve months is dependant on the Company achieving certain forecasts. In the event of non-compliance, the Company's lenders have the right to amend the financial covenants or demand repayment of the amounts outstanding under the lending agreements or pursue other remedies or, if the Company can reach an agreement with its lenders, amend the financial covenants.

[Table of Contents](#)

4. Capital stock

Common shares

Issued and outstanding:

The outstanding number of common shares included in shareholders' equity consisted of the following as of September 30, 2007:

	<u>Number of shares</u>	<u>\$</u>
Common Stock		
Exchangeable shares:		
Balance at beginning of the nine month period	1,226,956	\$ 11,608
Shares issued pursuant to:		
Conversion to common stock	<u>(435,423)</u>	<u>(4,119)</u>
Balance at end of the period	<u>791,533</u>	<u>\$ 7,489</u>
Common shares:		
Balance at beginning of the nine month period	13,419,376	\$ 361
Shares issued pursuant to:		
Conversion of exchangeable shares	<u>435,423</u>	<u>4</u>
Balance at end of the period	<u>13,854,799</u>	<u>\$ 365</u>
Special voting stock:		
Balance at beginning of the nine month period	<u>1</u>	<u>\$ —</u>
Balance at end of the period	<u>1</u>	<u>—</u>
Total Common stock	<u>14,646,333</u>	<u>\$ 7,854</u>
Warrants		
Common share warrants:		
Balance at beginning of the nine month period	<u>11,166,947</u>	<u>\$ 2,755</u>
Balance at end of the period	<u>11,166,947</u>	<u>\$ 2,755</u>
Exchangeable share warrants:		
Balance at beginning of the nine month period	<u>16,675,000</u>	<u>7,617</u>
Balance at end of the period	<u>16,675,000</u>	<u>\$ 7,617</u>
Total Warrants	<u>27,841,947</u>	<u>\$10,372</u>

Table of Contents

Stock options

For information regarding the Company's stock option arrangements, see Note 5 of the Notes to the Consolidated Financial Statements within the Company's Form 10-K for the fiscal year ended December 31, 2006. There were no options granted during the three month period ended September 30, 2007, or the three and nine month periods ended October 1, 2006. The Company generally issues new shares when options are exercised. A summary of stock option activity for the nine month period ended September 30, 2007 is as follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Aggregate intrinsic value</u>	<u>Weighted average remaining contractual term (years)</u>
Outstanding at December 31, 2006	942,124	\$ 2.80		
Options granted under the 2000 Equity incentive plan	40,000	\$ 3.11		
Options forfeited	(8,570)	\$ 27.02		
Outstanding at September 30, 2007	<u>973,554</u>	<u>\$ 2.64</u>	<u>\$ 2,527</u>	<u>7.8</u>
Exercisable at September 30, 2007	<u>373,554</u>	<u>\$ 3.52</u>	<u>\$ 1,314</u>	<u>6.8</u>

The following weighted average assumptions were used in computing the fair value of stock options granted in the first nine months of 2007:

	<u>September 30, 2007</u>
Black-Scholes weighted-average assumptions	
Expected dividend yield	0.0%
Expected volatility	101.3%
Risk-free interest rate	4.48%
Expected option life in years	4
Weighted-average stock option fair value per option granted	\$ 2.23

During the three month periods ended September 30, 2007 and October 1, 2006, the Company recorded stock-based compensation expense and a corresponding increase in contributed surplus of \$65 and \$32, respectively. For the nine month periods ended September 30, 2007 and October 1, 2006, the corresponding amounts recorded were \$196 and \$149, respectively. At September 30, 2007, compensation expense of \$450 related to non-vested stock options had not been recognized.

Deferred Share Units

Deferred Share Units are granted to directors and certain officers of the Company as remuneration. During the three and nine months ended September 30, 2007, 10,120 and 164,635 deferred share units were granted, respectively. During the three and nine months ended October 1, 2006, 12,020 and 36,975 deferred share units were granted, respectively.

At September 30, 2007 and October 1, 2006, 329,921 and 180,120 deferred share units were outstanding, respectively.

Deferred Share Unit compensation recovery for the three and nine months ended September 30, 2007 was \$1,068 and \$62, respectively. Deferred Share Unit compensation expense for the three and nine months ended October 1, 2006 was \$62 and \$243, respectively.

There is no unrecognized compensation related to deferred share units since these awards vest immediately when granted.

5. Restructuring and other charges

During 2001 and 2002, the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the "2001 Plan" and the "2002 Plan", respectively) and recorded restructuring and other charges consisting of: a write-down of

Table of Contents

goodwill and other intangible assets; the costs of exiting equipment and facility leases; severance costs; asset impairment charges; inventory exposures and other facility exit costs. During the third quarter of 2004, the Company announced further changes to its manufacturing operations as it continued to execute its transformation plan (the “2004 Plan”). This plan sought to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align its cost structure to expected revenue. During the third quarter of 2006 the Company began a restructuring program at the management level to better manage operating costs by reducing certain management roles (the “2006 Plan”). During the third quarter of 2007 the Company effected further changes to its manufacturing operations (the “2007 Plan”).

Restructuring charges:

During the three months ended September 30, 2007, the Company recorded termination payments of \$242 on account of the 2007 Plan. In addition, the Company made severance payments of \$42 under the 2006 Plan related to employees in Canada during the three months ended September 30, 2007. During the three months ended October 1, 2006, the Company recorded severance charges of \$470 relating to employees in the United States and in Canada under the 2006 Plan. In addition, the Company changed the estimate of amounts to be paid under the 2002 Plan and recorded an adjustment to reduce the accrual by \$1,820. During the three months ended October 1, 2006, the Company paid facility and severance costs of \$34 and \$90 under the 2002 Plan, and the 2004 Plan, respectively. During the nine months ended September 30, 2007, the Company recorded additional charges of \$242. In addition, the Company made severance payments of \$198 under the 2006 Plan related to employees in Canada during the nine months ended September 30, 2007. During the nine months ended October 1, 2006, the company paid facility and severance costs of \$64 and \$248 under the 2002 Plan and 2004 Plan, respectively, and recorded an adjustment to reduce the accrual related to the 2002 Plan of \$1,820.

There were no remaining accrued amounts related to the 2001 Plan, 2002 Plan and 2004 Plan as at December 31, 2006.

The following table details the change in the restructuring accrual, for the three and nine months ended September 30, 2007, relating to the 2006 Plan:

	2006 Plan
Balance as at December 31, 2006	\$ 353
Payments	<u>(119)</u>
Balance as at April 1, 2007	234
Payments	<u>(79)</u>
Balance as at July 1, 2007	\$ 155
Payments	<u>(42)</u>
Balance as at September 30, 2007	<u>\$ 113</u>

The Company expects to pay out the remaining amounts under the 2006 Plan during 2007 through a drawdown on the revolving credit facility.

There are no remaining unpaid amounts under the 2007 Plan as at September 30, 2007.

Loss (gain) on sale of assets:

In the third quarter of 2007, machinery and equipment was disposed of at a loss of \$9. During the third quarter of 2006, a parcel of land was sold for a net gain of \$1,228.

6. Loss on extinguishment of debt

Upon the early repayment of the Company’s existing senior term and subordinated term debts during the third quarter of 2007, the Company recorded a non-cash charge to remove the remaining unamortized deferred financing assets related to these extinguished debts, net of a recovery from the remaining unamortized balance of cancelled warrants, of \$269. The Company also incurred \$102 in early repayment fees and costs.

7. Other Expenses

Beginning in 2005 and through the first three quarters of 2006, the Company incurred expenses in considering a strategic initiative. The Company decided not to complete the initiative, resulting in a charge to earnings of \$826 in the third quarter of 2006.

[Table of Contents](#)

8. Income taxes

During the three months ended September 30, 2007, the Company recorded a net income tax expense of \$64 related to minimum taxes in certain jurisdictions.

During the nine months ended September 30, 2007, the Company recorded a net income tax recovery of \$1,479 primarily resulting from the release of a reserve of \$1,500 related to a refund received in 2006 for which the statute of limitations expired during the nine months ended September 30, 2007.

At December 31, 2006, the Company had total net operating loss (“NOL”) carry forwards of approximately \$74,171, of which \$1,259 will expire in 2012, \$3,608 will expire in 2014, \$210 will expire in 2015, \$1,077 will expire in 2018, \$60 will expire in 2019, \$30 will expire in 2020 and the remainder will expire between 2021 and 2026.

The adoption of FIN 48 did not result in a change to the Company’s accumulated deficit at January 1, 2007. The Company had \$1,828 of gross unrecognized tax benefits as of the time of the adoption of FIN 48 at January 1, 2007. At September 30, 2007 the Company had gross unrecognized tax benefits of \$340, which if recognized, would favorably impact the Company’s effective rate in future periods. The Company does not expect that any of the unrecognized tax benefits will decrease during the next twelve months. During the nine months ended September 30, 2007, the Company released \$1,538 of previously unrecognized tax benefits related to a refund of U.S. taxes as a result of the statute of limitations expiring. This release favorably impacted the Company’s effective tax rate in the period. The remainder of the change during the period is a result of foreign exchange revaluation of existing uncertain tax positions.

Tax years 2000 to 2007 remain open for review by the tax authorities in Canada. Tax years 2003 to 2007 remain open in the United States. In addition, 2001 contains an NOL that could potentially be carried forward and therefore remains open to the extent of the NOL.

The Company accounts for interest and penalties related to unrecognized tax benefits in income tax expense based on the likelihood of the event and its ability to reasonably estimate such amounts. The Company has approximately \$146 and \$109 accrued for interest and penalties as of September 30, 2007 and January 1, 2007, respectively. The increase for the first nine months of 2007 is primarily due to foreign exchange revaluation and the recording of incremental interest on existing uncertain positions for the period.

The Company is currently undertaking a detailed review of its current and historical transfer pricing policies and methodologies. The Company believes that it is more than likely than not that the results of its review will not have a material effect on its gross unrecognized tax benefits or its consolidated financial position.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected futures taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance is recorded against these deferred tax assets since 2004. The U.S. and Canadian jurisdictions continue to have a full valuation allowance recorded against the deferred tax assets in these jurisdictions.

9. Earnings per common share

The following table details the weighted average number of common shares outstanding for the purposes of computing basic and diluted earnings (loss) per common share for the following periods:

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
<i>(Number of common shares)</i>				
Basic weighted average shares outstanding	14,646,333	14,641,333	14,646,333	14,641,333
Dilutive stock options ^(a)	—	256,073	300,685	235,733
Diluted weighted average shares outstanding	14,646,333	14,897,406	14,947,018	14,877,066

[Table of Contents](#)

- (a) Dilutive stock options were determined using the treasury stock method. For the three months ended September 30, 2007 and October 1, 2006, the average share price used was \$3.86 and \$2.47 per share, respectively. For the nine months ended September 30, 2007 and October 1, 2006, the average share price was \$3.49 and \$2.31, respectively.

For the three and nine months ended September 30, 2007, the calculation did not include 973,554 and 672,869 stock options, respectively, and 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada and 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company, as the effect would have been anti-dilutive.

For the three and nine months ended October 1, 2006, the calculation did not include 426,267 and 446,605 stock options respectively, and 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada, and 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company, as the effect would have been anti-dilutive.

10. Segmented information

General description

The Company derives its revenue from one dominant industry segment, the electronics manufacturing services industry. The Company is operated and managed geographically and has facilities in the United States, Canada and Mexico. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges (recoveries) and discontinued operations. Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm's-length transactions. In assessing the performance of the operating segments management attributes revenue to the operating segment which ships the product and invoices the customer. Information about the operating segments is as follows for the three and nine months ended September 30, 2007 and October 1, 2006:

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenues				
U.S.	\$ 18,605	\$25,501	\$ 67,561	\$ 76,296
Canada	12,757	11,847	48,234	39,968
Mexico	24,055	32,367	81,387	82,793
Total	<u>\$ 55,417</u>	<u>\$69,715</u>	<u>\$ 197,182</u>	<u>\$199,057</u>
Intersegment revenue				
U.S.	\$ (26)	\$ (39)	\$ (148)	\$ (129)
Canada	(730)	(1,635)	(2,730)	(5,643)
Mexico	(615)	(2,364)	(4,671)	(6,558)
Total	<u>\$ (1,371)</u>	<u>\$ (4,038)</u>	<u>\$ (7,549)</u>	<u>\$ (12,330)</u>
Net external revenue				
U.S.	\$ 18,579	\$25,462	\$ 67,413	\$ 76,167
Canada	12,027	10,212	45,504	34,325
Mexico	23,440	30,003	76,716	76,235
Total	<u>\$ 54,046</u>	<u>\$65,677</u>	<u>\$ 189,633</u>	<u>\$186,727</u>
EBITA				
U.S.	\$ 419	\$ 1,976	\$ 3,397	\$ 6,654
Canada	335	(876)	1,169	(2,524)
Mexico	(5)	1,381	815	3,110
Total	<u>\$ 749</u>	<u>\$ 2,481</u>	<u>\$ 5,381</u>	<u>\$ 7,240</u>
Interest	1,265	1,009	4,529	3,400
Restructuring charges and other recoveries (note 5)	242	(1,350)	242	(1,350)
Gain on sale of assets (note 5)	—	(1,228)	—	(1,228)
Loss on extinguishment of debt (note 6)	371	—	371	—
Other expenses (note 7)	—	826	—	826
Earnings (loss) before income taxes	<u>\$ (1,129)</u>	<u>\$ 3,224</u>	<u>\$ 239</u>	<u>\$ 5,592</u>

[Table of Contents](#)

Capital additions

The following table contains capital additions for the three and nine months ended September 30, 2007 and October 1, 2006:

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
U.S.	\$ 52	\$ 27	\$ 225	\$ 460
Canada	705	70	973	510
Mexico	91	1,489	1,121	1,932
Total	<u>\$ 848</u>	<u>\$ 1,586</u>	<u>\$ 2,319</u>	<u>\$ 2,902</u>

Geographic revenues

The following table contains geographic revenues based on the product shipment destination for the three and nine months ended September 30, 2007 and October 1, 2006:

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
U.S.	\$ 27,380	\$47,892	\$ 86,699	\$137,426
Canada	17,138	6,211	73,975	21,484
Europe	1,430	1,827	4,564	4,613
Asia	511	535	2,377	722
Mexico	7,587	9,212	22,018	22,482
Total	<u>\$ 54,046</u>	<u>\$65,677</u>	<u>\$ 189,633</u>	<u>\$186,727</u>

Assets

	September 30, 2007	December 31, 2006
Long-lived assets ^(a)		
U.S.	\$ 6,146	\$ 7,487
Canada	2,854	1,883
Mexico	14,358	15,434
Total	<u>\$ 23,358</u>	<u>\$ 24,804</u>

(a) Long-lived assets information is based on the principal location of the asset.

Significant customers and concentration of credit risk:

Sales of the Company's products are concentrated among specific customers in the same industry. The Company generally does not require collateral. The Company is subject to concentrations of credit risk in trade receivables. The Company considers concentrations of credit risk in establishing the allowance for doubtful accounts and believes the recorded allowances are adequate.

The Company expects to continue to depend upon a relatively small number of customers for a significant percentage of its revenue. In addition to having a limited number of customers, the Company manufactures a limited number of products for each customer. If the Company loses any of its largest customers or any product line manufactured for one of its largest customers, it could experience a significant reduction in revenue. Also, the insolvency of one or more of its largest customers or the inability of one or more of its largest customers to pay for its orders could decrease revenue. As many costs and operating expenses are relatively fixed, a reduction in net revenue can decrease profit margins and adversely affect business, financial condition and results of operations.

During the three months ended September 30, 2007, three customers individually comprised 18.2%, 16.2% and 15.9% (October 1, 2006, three customers – 17.1%, 14.9% and 9.4%) of total revenue across all geographic segments. During the nine months ended September 30, 2007, three customers individually comprised 18.3%, 15.9% and 13.5% (October 1, 2006, three customers – 16.7%, 12.8% and 10.4%) of total revenue across all geographic segments. As of September 30, 2007, these customers represented 25.2%, 11.7% and 11.0%, respectively, (December 31, 2006, three customers – 17%, 2% and 17%, respectively) of the Company's trade accounts receivable.

[Table of Contents](#)

11. Commitments and Contingencies

In the normal course of business, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the financial statements, as required. Although it is not possible to estimate the extent of potential costs, if any, management believes that ultimate resolution of such contingencies would not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

12. Discontinued operations

In February 2002, the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operates the facility in voluntary administration. During the first quarter of 2002, the Company recorded the costs associated with the closure of the facility.

In 2003, earnings from discontinued operations included the distribution from the proceeds of the liquidation of \$2,304, less additional charges of \$740 related to the closure of the facility.

In 2004, earnings from discontinued operations included additional net proceeds from the liquidation of \$377.

In the third quarter of 2006, earnings from discontinued operations included additional proceeds from the liquidation of \$874. It is anticipated that this is the final recovery on the liquidated facilities.

[Table of Contents](#)

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Where we say "we", "us", "our", the "Company" or "SMTC", we mean SMTC Corporation or SMTC Corporation and its subsidiaries, as it may apply. Where we refer to the "industry", we mean the electronics manufacturing services industry.

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") in combination with the accompanying unaudited interim consolidated financial statements and related notes as well as the audited consolidated financial statements and the accompanying notes to the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") included within Annual Report on Form 10-K filed on April 2, 2007. The forward-looking statements in this discussion regarding the electronics manufacturing services industry, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, some of which are as described in the "Risk Factors That May Affect Future Results" section in the Annual Report on Form 10-K filed on April 2, 2007, as updated by Item 1A in Part II of this quarterly report. Certain statements in this MD&A contain words such as "could", "expects", "may", "anticipates", "believes", "intends", "estimates", "plans", "envisions", "seeks" and other similar language and are considered forward looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are reasonable based upon the assumptions in this MD&A, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this MD&A. We may not update these forward-looking statements after the date of this Form 10-Q, even though our situation may change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

This MD&A contains discussion in U.S. dollars unless specifically stated otherwise.

Overview

Background

We provide advanced electronics manufacturing services, or EMS, to original equipment manufacturers, or OEMs, primarily in the industrial, computing and networking, and communications market segments. We currently service our customers through manufacturing and technology centers strategically located in key technology corridors in the United States, Canada, and Mexico, as well as through our manufacturing relationship with China-based Alco Electronics. Our full range of value-added supply chain services include product design, procurement, prototyping, advanced cable and harness interconnect, high-precision enclosures, printed circuit board assembly, test, final system build, comprehensive supply chain management, packaging, global distribution and after sales support. As the technology sector grew rapidly in 1999 and 2000, we sought to take advantage of such growth and completed several acquisitions. When the technology sector declined, we found ourselves with significant excess capacity and incurred significant operating losses. As a result, in 2001 and 2002, we began an operational restructuring that involved closing six, and selling one, of our manufacturing facilities (the "2001 Plan" and "2002 Plan" respectively).

In early 2004, we initiated a comprehensive transformation plan designed to restructure, recapitalize and restore profitability and growth. The transformation plan had several components, including operational optimization, financial recapitalization, strategy development and implementation and organization renewal. The recapitalization, which closed on June 1, 2004, consisted of three main components:

- a private placement of equity securities;
- a transaction with SMTC's pre-existing lenders (the "Pre-existing Lenders") to repay a portion of SMTC's pre-existing debt and restructure the balance of SMTC's pre-existing debt; and
- a new secured credit facility with Wachovia Capital Finance of Canada and its affiliates ("Wachovia"). This secured facility with Wachovia, as amended, includes a revolving credit facility and a term loan, and is referred to herein as the "Wachovia Facilities."

The operational optimization announced during 2004 consisted of changes to our manufacturing operations designed to provide greater focus on new customer and new product introduction and technical activities, improve capacity utilization, align our cost structure to expected revenue, and to enable us to become profitable on a sustained basis (the "2004 Plan").

During 2005, we continued to execute our transformation plan to restore the Company to growth and profitability and therefore announced additional optimization related charges. Having reduced capacity and costs, stabilized the stakeholder base and refinanced the balance sheet, our transformation plan was substantially complete in mid-2005.

Our primary focus in 2006 was centered on the execution of a strategy that would enable us to increase revenue through a combination of increasing the level of business with current customers and through new customer acquisition and to restore profitability to a satisfactory level. We believe 2006 was a successful year in many respects for the Company, highlighted by double

Table of Contents

digit growth in revenues over 2005 and record earnings for the year. The Company grew sequentially and year over year each quarter of 2006 driven by both growth and increased share of business with existing customers and the addition of new customers, while at the same time maintaining operational excellence and cost containment.

However, in 2006 we did not meet our cash generation targets as the Company invested in inventory and accounts receivables mainly the result of supply chain challenges due to both external and internal forces. To address this issue, the Company undertook a number of inventory reduction initiatives.

In the third quarter of 2006, the Company realized a number of one-time items with a net favorable impact on net income of approximately \$5.0 million. Included in one time items were an income tax recovery, proceeds from the sale of surplus real estate, final proceeds from the sale of operations discontinued in 2002 and a net adjustment to restructuring accruals. Also during the third quarter of 2006, the Company began a restructuring program at the management level to better manage operating cash by reducing certain management roles (the "2006 Plan").

In September 2006, the Company and Wachovia amended the Wachovia Facilities to increase permitted borrowings under the secured credit facility from \$40 million to \$45 million and amended the terms to provide greater flexibility to manage working capital requirements. As a part of the debt restructuring, a Term Loan B was made available to the Company in an amount equal to \$10 million which bore a variable interest rate based on LIBOR plus five (5%) to seven (7%) percent depending on the senior leverage ratio. The Term Loan B had quarterly payments of \$0.3 million, maturing on October 15, 2007, and was secured by the Company's Mexican based assets. In March 2007, the Company and Wachovia signed another amendment to the Wachovia Facilities which extended the term of the secured revolving credit facility and original term loan to April 15, 2008.

Developments in 2007

Results for the third quarter of 2007 included a decrease in revenue of 18% from the same period last year, net loss of \$1.2 million and cash from operations of \$9.8 million. Net loss includes a \$1.0 million recovery for stock-based compensation, the majority of which is based on approximately 330,000 Deferred Stock Units held by the Chief Executive Officer and the Board of Directors which are marked to market. The Company's stock price declined from \$5.84 to \$2.37 in the quarter resulting in this recovery.

The Company successfully refinanced its balance sheet in August 2007 to reduce interest rates, address the debt maturities and provide greater financial flexibility.

While revenue growth over last year, profitability before certain charges and cash generation have been in line with management expectations, management is not satisfied with overall trends in revenues and related costs and has taken action to reduce costs in the third quarter by reducing staff. Cash generation has been positive and the Company continues to improve working capital management and make selective capital expenditures.

Overall, results for the first nine months reflect slightly higher revenue but lower earnings due to a combination of increased labor costs, customer and product mix differences and higher interest charges. Actions have been taken to align costs with expected revenue levels to improve gross margin and net earnings. Largely through improved working capital management, the Company has generated significant positive cash flow.

[Table of Contents](#)

Results of Operations

The consolidated financial statements of SMTC are prepared in accordance with U.S. GAAP, which conforms in all material respects to Canadian GAAP, except as disclosed in note 13 of the consolidated financial statements included with the Annual Report on Form 10-K filed on April 2, 2007.

The following table sets forth summarized operating results in millions of U.S.\$ for the periods indicated:

	Three months ended September 30, 2007		Three months ended October 1, 2006		Change 2007 to 2006	
	\$	%	\$	%	\$	%
Revenue	\$ 54.0	100.0%	\$ 65.7	100.0%	\$(11.7)	(17.8%)
Cost of sales	50.6	93.7%	59.8	91.0%	(9.2)	(15.4%)
Gross profit	3.4	6.3%	5.9	9.0%	(2.5)	(42.4%)
Selling, general and administrative expenses	2.7	5.0%	3.4	5.2%	(0.7)	(20.6%)
Restructuring:						
Restructuring (recoveries) charges	0.2	0.4%	(1.3)	(2.0%)	1.5	(115.4%)
Gain on sale of assets	—	—	(1.2)	(1.8%)	1.2	(100.0%)
Loss on extinguishment of debt	0.4	0.7%	—	—	0.4	NA
Other expenses	—	—	0.8	1.2%	(0.8)	(100.0%)
Operating earnings	0.1	0.2%	4.2	6.4%	(3.7)	(88.1%)
Interest expense	1.2	2.2%	1.0	1.5%	0.2	20.0%
Earnings from continuing operations before income taxes	(1.1)	(2.0%)	3.2	4.9%	(3.9)	(121.9%)
Income tax expenses						
Current	0.1	0.2%	(2.0)	(3.0%)	2.1	NA
Deferred	—	0.0%	—	0.0%	—	NA
	0.1	0.2%	(2.0)	(3.0%)	2.1	NA
Net earnings from continuing operations	(1.2)	(2.2%)	5.2	7.9%	\$ (6.0)	NA
Net earnings from discontinued operations	—	0.0%	0.9	1.4%	(0.9)	NA
Net earnings (loss)	\$ (1.2)	(2.2%)	\$ 6.1	9.3%	\$ (7.3)	NA

Quarter ended September 30, 2007 compared to the quarter ended October 1, 2006:

Revenue

Revenue decreased \$11.7 million, or 17.8%, from \$65.7 million for the third quarter of 2006 to \$54.0 million for the third quarter of 2007. The decrease in revenue in the third quarter of 2007 occurred across virtually all our major customers, including Ingenico and Harris Broadcast Infrastructure and Digital Media (a subsidiary of Harris Corporation) (“Harris”). These are declines from longstanding customers due in part to inventory corrections, product mix changes, and in certain cases, end market softness.

During the third quarter of 2007, although revenue from the industrial sector decreased compared to the same quarter of 2006, \$37.7 million for the third quarter of 2007 compared with \$43.4 million for the same period in 2006, it represented 69.8% of revenue in the third quarter of 2007, compared with 66.1% of revenue in the third quarter of 2006. The increase in percentage of sales is due in large part to the relative drop in the communications sector.

During the third quarter of 2007, revenue from the communications sector decreased compared with the same quarter of 2006, \$8.3 million for the third quarter of 2007 compared with \$12.7 million in 2006, which represented 15.4% of revenue in the third quarter of 2007, compared with 19.3% of revenue in the third quarter of 2006. The decline in both revenue and percentage of sales in the communications sector is due to a reduction in revenue from a longstanding customer.

During the third quarter of 2007, revenue from the networking and enterprise computing sector decreased compared with the same quarter of 2006, \$8.0 million for the third quarter of 2007 compared with \$9.6 million in 2006, which represented 14.8% of revenue in the third quarter of 2007, up from 14.6% of revenue in the third quarter of 2006. The decrease in revenue in this sector is due to reductions with several long standing customers.

Table of Contents

During the third quarter of 2007, we recorded approximately \$0.6 million of sales of raw materials inventory to customers, which carried no margin, compared to \$0.7 million in the third quarter of 2006. The Company purchases raw materials based on customer purchase orders. When a customer requires an order to be altered or changed, the customer is generally obligated to purchase the original on-order raw material at cost, to the extent the materials are not consumed within a specified period.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, revenues from a particular customer typically varies from quarter to quarter and year to year. The Company's ten largest customers represented 82.8% of revenue during the third quarter of 2007, compared to 85.3% in the third quarter of 2006. Revenue from our three largest customers during the third quarter of 2007 were \$9.8 million from Ingenico, \$8.8 million from Harris, and \$8.6 million from MEI, Inc. ("MEI") representing 18.2%, 16.2% and 15.9% of total revenue for the third quarter of 2007, respectively. This compares with revenue of \$11.2 million from Ingenico, \$9.8 million from MEI and \$6.2 million from Gilbarco, representing 17.1%, 14.9% and 9.4% of total revenue for the third quarter of 2006, respectively. No other customers represented more than 10% of revenue in either period.

During the third quarter of 2007, 34.4% of our revenue was attributable to our operations in the U.S., 43.4% in Mexico and 22.2% in Canada. During the third quarter of 2006, 49.4% of our revenue was attributable to our operations in the Mexico, 35.2% in the United States and 15.4% in Canada. The increase in Canada was the result of increased revenue from Harris and the introduction of newer customers, while the decrease in Mexico was largely due to decreases in revenue from Ingenico.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for revenue to decline to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of our larger product lines manufactured for any one of our customers, we could experience declines in revenue.

Gross Profit

Gross profit for the third quarter of 2007 decreased by \$2.5 million, or 42.4%, to \$3.4 million when compared to the same period in 2006. This is primarily due to reduced revenue levels leading to proportionately increased costs and foreign exchange losses from the weakening U.S. dollar.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased by \$0.7 million or 20.6% during the third quarter of 2007 to \$2.7 million from \$3.4 million in the third quarter of 2006. The decrease related to a recovery from stock-based compensation expense of \$1.0 million partially offset by increases in variable compensation costs and other expenses such as professional services, information technology and travel, related to timing of such expenditures.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

Restructuring and Other Charges

During the three months ended September 30, 2007, the Company recorded termination payments of \$0.2 million in conjunction with the 2007 Plan, which was primarily related to operations in Mexico. In addition, the Company made severance payments of less than \$0.1 million under the 2006 Plan related to employees in Canada during the three months ended September 30, 2007. During the three months ended October 1, 2006, the Company recorded severance charges of \$0.5 million relating to employees in the United States and in Canada under the 2006 Plan. In addition, the Company changed the estimate of amounts to be paid under the 2002 Plan and recorded an adjustment to reduce the accrual by \$1.8 million. During the three months ended October 1, 2006, the Company paid facility and severance costs of \$0.1 million under the 2002 Plan and the 2004 Plan, in aggregate. We expect the majority of the remaining restructuring accrual related to the 2006 Plan to be paid by the end of 2007.

For more detailed disclosure related to these plans and charges recorded please refer to note 6, "Restructuring and other charges" of the audited consolidated financial statements included in the Annual Report on Form 10-K filed on April 2, 2007.

[Table of Contents](#)

Loss on extinguishment of debt

Upon the early repayment of the Company's existing senior term and subordinated debt during the third quarter of 2007, the Company recorded a non-cash charge to remove the remaining unamortized deferred financing assets related to these extinguished debts, net of a recovery from the remaining unamortized balance of cancelled warrants, of \$0.3 million. The Company also paid \$0.1 million in early repayment fees and costs.

Interest Expense

Interest expense increased from \$1.0 million in the third quarter of 2006 to \$1.2 million for the third quarter of 2007, an increase of \$0.2 million resulting primarily from \$0.3 million of interest income related to a tax recovery that was recorded in the third quarter of 2006. Interest expense for both the third quarter of 2007 and 2006 included the amortization of deferred financing fees of \$0.2 million, offset by a reduction in interest expense of \$0.1 million related to the amortization of the value of cancelled warrants. Excluding the amortization of deferred financing fees, the reduction in interest expense related to the amortization of cancelled warrants, and the interest income related to the tax recovery in the third quarter of 2006, interest expense was \$1.1 million for the third quarter of 2007 and \$1.4 million for the third quarter of 2006. The decrease was due to reduced average debt levels. The weighted average interest rates with respect to the debt were 10.0% and 9.9% for each of the third quarters of 2007 and 2006, respectively.

Income Tax Expense

During the third quarter of 2007, the Company recorded a net income tax expense of less than \$0.1 million related to minimum taxes in certain jurisdictions, compared to a net income tax recovery of \$1.9 million, resulting from a tax refund and reversal of accruals, during the third quarter of 2006.

At December 31, 2006, the Company had total net operating loss ("NOL") carry forwards of approximately \$74.2 million, of which \$1.3 million will expire in 2012, \$3.6 million will expire in 2014, \$0.2 million will expire in 2015, \$1.1 million will expire in 2018, \$60,000 will expire in 2019, \$30,000 will expire in 2020 and the remainder will expire between 2021 and 2026.

The Company adopted FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48") effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There was no impact to the unaudited interim consolidated financial statements of the Company as a result of adopting FIN 48.

Tax years 2000 to 2007 remain open for review by the tax authorities in Canada. Tax years 2003 to 2007 remain open in the United States. In addition, 2001 contains an NOL that could potentially be carried forward and therefore remains open to the extent of the NOL.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. The U.S. and Canadian jurisdictions continue to have a full valuation allowance recorded against the deferred tax assets in those jurisdictions.

[Table of Contents](#)

The following table sets forth summarized operating results in millions of U.S. \$ for the periods ended:

	Nine months ended September 30, 2007		Nine months ended October 1, 2006		Change 2007 to 2006	
	\$	%	\$	%	\$	%
Revenue	\$ 189.6	100.0%	\$ 186.7	100.0%	\$ 2.9	1.6%
Cost of sales	173.9	91.7%	168.0	90.0%	5.9	3.5%
Gross profit	15.7	8.3%	18.7	10.0%	(3.0)	(16.0%)
Selling, general and administrative expenses	10.4	5.5%	11.5	6.2%	(1.1)	(9.6%)
Restructuring:						
Restructuring (recoveries) charges	0.2	0.1%	(1.3)	(0.7%)	1.5	(115.4%)
Gain on sale of assets			(1.2)	(0.6%)	1.2	(100.0%)
Loss on extinguishment of debt	0.4	0.2%				
Other expenses			0.8	0.4%	(0.8)	(100.0%)
Operating earnings	4.7	2.5%	8.9	4.8%	(3.8)	(42.7%)
Interest expense	4.5	2.4%	3.3	1.8%	1.2	36.4%
Earnings from continuing operations before income taxes	0.2	0.1%	5.6	3.0%	(5.0)	(89.3%)
Income tax expenses						
Current	(1.5)	(0.8%)	(1.8)	(1.0%)	0.3	(16.7%)
Deferred	—	0.0%	—	0.0%	—	NA
	(1.5)	(0.8%)	(1.8)	(1.0%)	0.3	(16.7%)
Net earnings from continuing operations	1.7	0.9%	7.4	4.0%	\$(5.3)	(71.6%)
Net earnings from discontinued operations		0.0%	0.9	0.5%	(0.9)	NA
Net earnings (loss)	\$ 1.7	0.9%	\$ 8.3	4.4%	\$(6.6)	(79.5%)

Nine months ended September 30, 2007 compared to nine months ended October 1, 2006

Revenue

Revenue increased \$2.9 million, or 1.6%, from \$186.7 million for the first nine months of 2006 to \$189.6 million for the first nine months of 2007. The increase in revenue is largely due to growth in revenue from increased volume from several of our largest customers during the first nine months of 2007 compared with the same period last year, including Ingenico, MEI and Harris, partially offset by a decline in revenue from longstanding customers that have experienced some end-market softness. In 2007, Harris's production requirements increased reflecting ramping to full production and growth in its revenue.

During the first nine months of 2007, revenue from the industrial sector represented 67.6% of revenue compared to 63.5% of revenue for the first nine months of 2006. The percentage of sales attributable to the networking and enterprise computing sector and the communications sector were 17.7% and 14.7%, respectively, for the first nine months of 2007 compared to 18.1% and 18.4%, respectively, for the first nine months of 2006.

Revenue generated from the industrial sector grew \$9.6 million in the first nine months of 2007 compared with the first nine months of 2006 at \$128.2 million and \$118.6 million, respectively. The corresponding increase in the percentage of revenue generated from the industrial sector in the first nine months of 2007 compared with the first nine months of 2006 is due largely to the growth in revenue from Ingenico, MEI and Harris in the first nine months of 2007.

In both relative and absolute terms, the revenue generated from the communications sector in the first nine months declined. The absolute dollars declined \$6.5 million from \$34.4 million in the first nine months of 2006 to \$27.9 million in the first nine months of 2007 largely due to a decline in revenue from longstanding customers offset by growth in volume from several smaller customers. The percentage of revenue generated from the communications sector in the first nine months of 2007 compared with the same period last year declined in relative terms due in part to a decline from longstanding customers, as well as in large part due to the significant increase in growth in the industrial sector.

Table of Contents

In absolute terms the revenue generated from the networking and enterprise computing sector in the first nine months of 2007 when compared to the first nine months of 2006 decreased \$0.2 million, from \$33.7 million to \$33.5 million. In relative terms, the percentage of revenue generated from the networking and enterprise computing sector in the first nine months of 2007 compared to the first nine months of 2006 increased largely due to the significant increase in growth in the industrial sector.

During the first nine months of 2007, we recorded approximately \$2.7 million of sales of raw materials inventory to customers, which carried no margin, compared to \$1.5 million in the first nine months of 2006. The Company purchases raw materials based on customer purchase orders. When a customer requires an order to be altered or changed, the customer is generally obligated to purchase the original on-order raw material at cost, to the extent the materials are not consumed within a specified period.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, customer volumes produced by the Company typically vary from year to year. For the first nine months of 2007, the Company's ten largest customers represented 81.0% of revenue compared to 84.8% for the same period last year. Revenue from our largest customers during the first nine months of 2007 was \$34.6 million from Ingenico, \$30.2 million from Harris and \$25.5 million from MEI representing 18.3%, 15.9%, and 13.5%, respectively, of total revenue for the period. This compares with revenue of \$31.2 million from Ingenico, \$23.9 million from MEI, and \$19.4 million from Harris representing 16.7%, 12.8%, and 10.4%, respectively, of total revenue for the same period last year. No other customers represented more than 10% of revenue in either period.

During the first nine months of 2007, 40.5% of our revenue was produced from operations in Mexico, 35.5% from the United States and 24.0% from Canada. During the first nine months of 2006, 44.2% of our revenue was produced from operations in Mexico, 37.5% from the United States and 18.3% from Canada. The decrease in production in Mexico is the result of decreased revenue from a number of our customers compared to the same period in the prior year. The decrease in production in the United States is a result of the decreases across the board in all sectors. The increase in production in Canada is due to higher revenue earned from Harris compared to the prior year.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive tendering process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the tender process; however there is also the potential for revenue to decline to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of the larger product lines manufactured for any one of our customers, we could experience declines in revenue.

Gross Profit

Gross profit decreased by \$3.0 million from \$18.7 million, or 10.0% of revenue, for the first nine months of 2006 as compared to \$15.7 million, or 8.3% of revenue, for the first nine months of 2007. The decrease in the gross margin percentage in the first nine months of 2007 is largely due to higher part sales at no margin and increased labor costs, with a modest change in customer and product mix and foreign exchange losses resulting from the weakening U.S. dollar.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased \$1.1 million from \$11.5 million, or 6.2% of revenue, for the first nine months of 2006 to \$10.4 million, or 5.5% of revenue, for the first nine months of 2007. The decrease related to reductions in variable compensation costs and other expenses reflecting timing of certain expenses such as professional services costs and travel.

Table of Contents

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

Restructuring and Other Charges

During the nine months ended September 30, 2007, the Company recorded termination payments of \$0.2 million in conjunction with the 2007 Plan. In addition, the Company made severance payments of \$0.2 million under the 2006 Plan related to employees in Canada during the nine months ended September 30, 2007. During the nine months ended October 1, 2006, the Company recorded severance charges of \$0.5 million relating to employees in the United States and in Canada under the 2006 Plan. In addition, the Company changed the estimate of amounts to be paid under the 2002 Plan and recorded an adjustment to reduce the accrual by \$1.8 million. During the nine months ended October 1, 2006, the Company paid facility and severance costs of \$0.1 million and \$0.2 million under the 2002 Plan and the 2004 Plan, respectively. We expect the majority of the remaining restructuring accrual related to our various restructuring plans to be paid by the end of 2007.

For more detailed disclosure related to these plans and charges recorded please refer to note 6 “Restructuring and other charges” of the consolidated financial statements included in the Annual Report on Form 10-K filed on April 2, 2007.

Loss on extinguishment of debt

Upon the early repayment of the Company’s existing senior term and subordinated debt during the third quarter of 2007, the Company recorded a non-cash charge to remove the remaining unamortized deferred financing assets related to these extinguished debts, net of a recovery from the remaining unamortized balance of cancelled warrants, of \$0.3 million. The Company also paid \$0.1 million in early repayment fees and costs.

Interest Expense

Interest expense increased \$1.2 million from \$3.3 million for the first nine months of 2006 to \$4.5 million for the first nine months of 2007. Interest expense for the first nine months of 2007 includes the amortization of deferred financing fees of \$1.0 million offset by a reduction in interest expense of \$0.3 million related to the amortization of the value of the cancelled warrants. Interest expense in the first nine months of 2006 include the amortization of deferred financing fees of \$0.7 million offset by a reduction in interest expense of \$0.3 million related to the amortization of the value of cancelled warrants and \$0.3 million of interest income related to a \$2.7 million tax refund received in the third quarter of 2006. Excluding the amortization of deferred financing fees, the reduction in interest expense related to the amortization of the value of the cancelled warrants, and the interest income related to the tax refund in 2006, interest expense was \$3.8 million for the first nine months of 2007 and \$3.2 million for the first nine months of 2006. The weighted average interest rates with respect to the debt for the first nine months of 2007 and 2006 were 10.0% and 9.4%, respectively.

Income Tax Expense

During the first nine months of 2007, the Company recorded a net income tax recovery of \$1.5 million primarily related to a release of a reserve related to a tax refund received in 2006 and related interest. During the first nine months of 2006, a net income tax recovery of \$1.8 million was recorded, resulting from a tax refund and reversal of accruals.

At December 31, 2006, the Company had total NOL carry forwards of approximately \$74.2 million, of which \$1.3 million will expire in 2012, \$3.6 million will expire in 2014, \$0.2 million will expire in 2015, \$1.1 million will expire in 2018, \$60,000 will expire in 2019, \$30,000 will expire in 2020 and the remainder will expire between 2021 and 2026.

The Company adopted FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There was no impact to the unaudited interim consolidated financial statements of the Company as a result of adopting FIN 48.

Table of Contents

Tax years 2000 to 2007 remain open for review by the tax authorities in Canada. Tax years 2003 to 2007 remain open in the United States. In addition, 2001 contains an NOL that could potentially be carried forward and therefore remains open to the extent of the NOL.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. The U.S. and Canadian jurisdictions continue to have a full valuation allowance recorded against the deferred tax assets in those jurisdictions.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under our Wachovia Monroe Facilities. We have also previously relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements and to finance working capital requirements. We anticipate our principal uses of cash in the future will continue to be to meet debt service requirements and to finance working capital requirements.

Liquidity

Nine months ended September 30, 2007:

Net cash provided by operating activities during the nine months ended September 30, 2007 was \$22.4 million. The cash generated resulted from increased sales, a decline in selling, general and administrative expenses and a decrease in net working capital requirements of \$15.1 million primarily due to decreases in inventories and accounts receivable. Accounts receivable days sales outstanding were 50 and 57 days for each of the nine months ended September 30, 2007 and October 1, 2006, respectively. Inventory turnover, on an annualized basis was, 6.3 times for 2007 and compared to 5.2 times for 2006. Accounts payable days outstanding were 62 days at the end of the third quarter of 2007 compared to 60 days for the same period in 2006.

Net cash used in financing activities during the nine months ended September 30, 2007 was \$20.4 million. During the nine months ended September 30, 2007, the Company borrowed \$21.5 million in new term debt, repaid debt of \$40.0 million and capital leases of \$0.5 million, and incurred financing fees of \$1.4 million, while during the same period in 2006 the Company incurred a net increase in its long-term debt of \$12.3 million, proceeds from discontinued operations of \$0.9 million offset by the repayment of capital leases of \$1.4 million and payment of deferred financing fees of \$0.6 million. Under the Wachovia Monroe Facilities, the Company has a secured revolving credit facility of up to \$40.0 million and \$21.5 million in term loans. The revolving portion of the Wachovia Facilities has a borrowing formula that bases our ability to borrow on the characteristics of our accounts receivable and inventory.

Net cash used by investing activities during the nine months ended September 30, 2007 was \$1.8 million and the nine months ended October 1, 2006 was \$0.4 million. Cash used in the first nine months of 2007 relate to purchases of property, plant and equipment, while cash used in the first nine months of 2006 consist of \$1.6 million used in the purchase of property, plant and equipment, offset by \$1.2 million received as proceeds from the sale of property, plant and equipment.

Capital Resources

On August 3, 2007, the Company and its subsidiaries entered into new five year agreements with Wachovia, the Company's existing senior lender, and Monroe Capital Management Advisors LLC in both Canada and the United States (collectively, the "Wachovia Monroe Facilities"). The Wachovia Monroe Facilities provide for a \$40.0 million revolving credit facility and a \$21.5 million term loan. The proceeds of the loans were used to repay existing debt and will provide for future working capital needs. The availability under the revolving credit facilities are subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company. The revolving credit facilities bear interest at the U.S. Prime rate. The term loan bears interest at LIBOR plus 4% with the rate declining at predetermined levels based on the Company's overall leverage. The new facilities are expected to decrease interest costs to the Company by approximately 200 basis points as compared to our previous facilities.

Table of Contents

We believe that cash generated from operations, available cash and amounts available under our Wachovia Monroe Facilities and additional financing sources such as leasing companies and other lenders will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth through the next twelve months, although no assurance can be given in this regard, particularly with respect to amounts available from lenders. We have agreed to a borrowing base formula under which the amount we are permitted to borrow under the Wachovia Monroe Facilities is based on our accounts receivable and inventory. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

During the nine months ended September 30, 2007, equipment of \$0.6 million was acquired via a capital lease.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our credit facilities bear interest at floating rates. The weighted average interest rate incurred on debt for the quarter ended September 30, 2007 was 10.0%. At September 30, 2007, the interest rate on our revolving credit facility would have been 9.5% based on the U.S. prime rate and our term debt bore interest at 9.565% based on LIBOR. If base rates increased by 10%, our interest expense would have increased by approximately \$0.1 million annually.

Foreign Currency Exchange Risk

Most of our sales are denominated in U.S. dollars. Most of our purchases are denominated in U.S. dollars, with the exception of Canadian and Mexican payroll and other various expenses denominated in local currencies. As a result we have limited exposure to foreign currency exchange risk for modest changes in exchange rates. However, for more significant changes in exchange rates, the Company is subject to greater variations.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, the Company's Principal Executive Officer and Principal Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures. Based on their evaluation, the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Principal Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls and Procedures

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation of these controls by the Company's Principal Executive Officer and Principal Financial Officer.

[Table of Contents](#)

Part II OTHER INFORMATION

Item 1A Risk Factors

Other than with respect to the risk factors below, there have been no material changes from the risk factors disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. The two risk factors below were disclosed on the Form 10-K and have been updated to provide revised information as of November 14, 2007.

A majority of our revenue comes from a small number of customers; if we lose any of our larger customers, our revenue could decline significantly.

We operate in a highly competitive and dynamic marketplace in which current and prospective customers often seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for revenue decline to the extent we are unsuccessful in the process. Furthermore, even if we are successful, there is the potential for our margins to decrease.

Three of our largest customers were Ingenico, Harris and MEI, representing 18.3%, 15.9% and 13.5% of total revenue for the nine months ended September 30, 2007, respectively. For the third quarter of 2007, our top ten largest customers (which includes Ingenico, Harris and MEI) collectively represented 81.0% of our total revenue. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. In addition to having a limited number of customers, we manufacture a limited number of products for each of our customers. If we lose any of our largest customers or any product line manufactured for one of our largest customers, we could experience a significant reduction in our revenue. Also, the insolvency of one or more of our largest customers or the inability of one or more of our largest customers to pay for its orders could decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profit margins and adversely affect our business, financial condition and results of operations.

RISKS RELATED TO OUR CAPITAL STRUCTURE

Our indebtedness could adversely affect our financial health and severely limit our ability to plan for or respond to changes in our business.

On August 3, 2007, we entered into a new credit agreement with Wachovia Capital Finance Corporation and Monroe Capital LLC to refinance the Company’s short and long term debt. Under the new banking arrangements, Wachovia has provided a \$40 million revolving credit facility and Monroe has provided \$21.5 million in term debt. Our debt under the Wachovia Monroe Facilities could have adverse consequences for our business, including:

- We will be more vulnerable to adverse general economic conditions.
- We will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes.
- We may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.
- We may have limited flexibility in planning for, or reacting to, changes in our business and industry.
- We could be limited by restrictive covenants and the borrowing base formula in our credit arrangements in our borrowing of additional funds.
- We may fail to comply with covenants under which we borrowed our indebtedness, including various financial covenants under our Wachovia Monroe Facilities. These covenants, applicable to specific twelve month rolling periods, include (i) a minimum consolidated EBITDA target, (ii) a minimum fixed charge coverage ratio, (iii) a maximum total debt to EBITDA ratio, and (iv) maximum capital expenditures. Our failure to comply with covenants could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were unable to repay such amounts, our lenders could proceed against any collateral granted to them to secure that indebtedness. There can be no assurance that we will maintain compliance with the covenants under the Wachovia Monroe Facilities.
- Our Wachovia Monroe Facilities contains subjective acceleration clauses. There can be no assurance that the lender will not exercise their rights to accelerate repayment under the terms of the agreement.

There can be no assurance that our leverage and such restrictions will not materially adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. In addition, our ability to pay principal and interest on our indebtedness to meet our financial and restrictive covenants and to satisfy our other debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, certain of which are beyond our control, as well as the availability of revolving credit borrowings under the Wachovia Monroe Facilities or successor facilities.

Table of Contents

Item 6 Exhibits

<u>Exhibit Number</u>	<u>Document</u>
10.1	Amended and Restated U.S. Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc.
10.2	Amended and Restated Canadian Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada.
10.3	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Canada dated August 10, 2007.
10.4	Amended and Restated Guarantee by SMTC Manufacturing Corporation of California dated August 10, 2007.
10.5	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Massachusetts dated August 10, 2007.
10.6	Amended and Restated Guarantee by SMTC Mex Holdings, Inc. dated August 10, 2007.
10.7	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. dated August 3, 2007.
10.8	Amended and Restated Guarantee by SMTC Corporation, HTM Holdings, Inc. and SMTC Holdings, LLC dated August 10, 2007.
10.9	Amended and Restated General Security Agreement by SMTC Corporation, HTM Holdings, Inc. and SMTC Group Holdings, LLC dated August 10, 2007.
10.10	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of Canada dated August 10, 2007.
10.11	Amended and Restated General Security Agreement by SMTC Nova Scotia Company dated August 10, 2007.
10.12	Amended and Restated Guarantee by SMTC Nova Scotia Company dated August 10, 2007.
31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 14, 2007.
31.2	Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 14, 2007.
32.1	Certification of John Caldwell pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 14, 2007.
32.2	Certification of John Caldwell pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 14, 2007.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, SMTC Corporation has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

SMTC CORPORATION

By: /s/ John Caldwell

Name: John Caldwell

Title: President and CEO

By: /s/ Jane Todd

Name: Jane Todd

Title: Chief Financial Officer

Date: November 14, 2007

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Amended and Restated US Loan Agreement

by and between

WACHOVIA CAPITAL FINANCE CORPORATION (CENTRAL)

formerly known as Congress Financial Corporation (Central),
as Revolving Lender and Administrative and Collateral Agent

- and -

MONROE CAPITAL MANAGEMENT ADVISORS LLC

as a Tranche B Lender and Tranche B Agent

- and each of -

SMTC MANUFACTURING CORPORATION OF CALIFORNIA
SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS
SMTC MEX HOLDINGS, INC.

collectively, as US Borrowers

Dated: August 3, 2007

TABLE OF CONTENTS

SECTION 1. DEFINITIONS	2
1.1 “Accounts”	2
1.2 “Adjusted Libor Rate”	2
1.3 “Agent”	3
1.4 “Applicable Margin”	3
1.5 “Approved Fund”	4
1.6 “Availability Reserves”	4
1.7 “Bankruptcy Code”	4
1.8 “Blocked Accounts”	4
1.9 “Borrowing Base”	4
1.10 “Borrowing Base Certificate”	5
1.11 “Business Day”	5
1.12 “Canadian Advances”	5
1.13 “Canadian Agent”	5
1.14 “Canadian Availability Reserves”	5
1.15 “Canadian Borrower”	6
1.16 “Canadian Borrowing Base”	6
1.17 “Canadian Eligible Accounts”	6
1.18 “Canadian Excess Availability”	6
1.19 “Canadian Financing Agreements”	6
1.20 “Canadian Hedge Agreements”	6
1.21 “Canadian Hedging Liabilities”	6
1.22 “Canadian Lenders”	6
1.23 “Canadian Letter of Credit Accommodations”	7
1.24 “Canadian Loan Agreement”	7
1.25 “Canadian Loans”	7
1.26 “Canadian Mark to Market Exposure”	7
1.27 “Canadian Obligations”	7
1.28 “Canadian Priority Event”	7
1.29 “Canadian Revolving Lender”	7
1.30 “Canadian Revolving Loans”	7
1.31 “Canadian Revolving Maximum Credit”	7
1.32 “Canadian Special Agent Advances”	8
1.33 “Canadian Special Tranche B Agent Advances”	8
1.34 “Canadian Tranche B Agent”	8
1.35 “Canadian Tranche B Loan”	8
1.36 “Canadian Tranche B Lenders”	8
1.37 “Capital Expenditures”	8
1.38 “Capital Lease”	8
1.39 “CCAA”	8
1.40 “Closing Date”	9
1.41 “Collateral”	9
1.42 “Combined Eligible Accounts”	9
1.43 “Consolidated Net Income”	9
1.44 “Control”	10

1.45	“Debt Offering”	10
1.46	“Default”	10
1.47	“Deposit Account Control Agreement”	10
1.48	“EBITDA”	10
1.49	“Eligible Accounts”	10
1.50	“Eligible Inventory”	13
1.51	“Enforcement Action”	13
1.52	“Environmental Laws”	13
1.53	“Equipment”	14
1.54	“Equity Offering”	14
1.55	“Equivalent Amount”	14
1.56	“ERISA”	14
1.57	“ERISA Affiliate”	14
1.58	“ERISA Event”	15
1.59	“Excess Cash Flow”	15
1.60	“Existing Security”	15
1.61	“Existing Security Agreements”	16
1.62	“Event of Default”	16
1.63	“Financing Agreements”	16
1.64	“Fixed Charge Coverage Ratio”	16
1.65	“Fixed Charges”	16
1.66	“Full Control Notice”	16
1.67	“GAAP”	16
1.68	“General Security Agreement”	17
1.69	“Hazardous Materials”	17
1.70	“Hedge Agreement”	17
1.71	“Hedging Liabilities”	17
1.72	“HTM”	17
1.73	“Inactive Subsidiaries”	18
1.74	“Information Certificate”	18
1.75	“Interest Expense”	18
1.76	“Interest Payment Date”	18
1.77	“Interest Period”	18
1.78	“Interest Rate”	18
1.79	“Inventory”	19
1.80	“ISDA”	19
1.81	“Junior Participation”	19
1.82	“Leased Real Property”	19
1.83	“Letter of Credit Accommodations”	19
1.84	“Libor Rate”	19
1.85	“Libor Rate Loan”	20
1.86	“Lien”	20
1.87	“Loans”	20
1.88	“Major Customer”	20
1.89	“Major Customer Designated Facilities”	20
1.90	“Mark to Market Exposure”	20
1.91	“Material Adverse Effect”	21
1.92	“Maturity Date”	21

1.93	“Measurement Date”	21
1.94	“Mexican Negative Pledge Agreement”	21
1.95	“Mexican Obligor Collateral”	21
1.96	“Mexican Obligors”	21
1.97	“Mexican Security Documents”	22
1.98	“Mexican Undertaking”	22
1.99	“Monroe”	22
1.100	“Moody’s”	22
1.101	“Multiemployer Plan”	22
1.102	“Net Amount of Eligible Accounts”	22
1.103	“Obligations”	22
1.104	“Obligor”	23
1.105	“Officer’s Compliance Certificate”	23
1.106	“Original Canadian Loan Agreement”	23
1.107	“Original US Loan Agreement”	23
1.108	“Payment Account”	23
1.109	“PBGC”	23
1.110	“Pension Plans”	23
1.111	“Person” or “person”	24
1.112	“PPSA”	24
1.113	“Priority Event”	24
1.114	“Priority Payables Reserve”	24
1.115	“Prime Rate”	25
1.116	“Provision for Taxes”	25
1.117	“Real Property”	25
1.118	“Records”	25
1.119	“Reference Rate”	25
1.120	“Reference Rate Loans”	25
1.121	“Register”	25
1.122	“Registered Tranche B Loan”	26
1.123	“Registered Tranche B Loan Note”	26
1.124	“Reportable Event”	26
1.125	“Required Lenders”	26
1.126	“Required Tranche B Lenders”	26
1.127	“Revolving Lender”	26
1.128	“Revolving Loan Priority Collateral”	26
1.129	“Revolving Loans”	26
1.130	“S&P”	26
1.131	“SMTC Corporation”	27
1.132	“Solvent”	27
1.133	“Special Agent Advances”	27
1.134	“Special Tranche B Agent Advances”	27
1.135	“Spot Rate”	27
1.136	“Subsidiaries”	27
1.137	“Total Debt”	28
1.138	“Total Excess Availability”	28
1.139	“Total Leverage Ratio”	28
1.140	“Tranche B Agent”	28

1.141	“Tranche B Lenders”	28
1.142	“Tranche B Loan”	28
1.143	“Tranche B Loan Action Default”	28
1.144	“Tranche B Loan Action Default Notice”	28
1.145	“Tranche B Loan Interest Rate”	29
1.146	“Tranche B Loan Fee Letter”	29
1.147	“Tranche B Loan Priority Collateral”	29
1.148	“Transferee”	29
1.149	“UCC”	29
1.150	“US”	29
1.151	“US Borrowers”	30
1.152	“US Dollar Amount”	30
1.153	“US Excess Availability”	30
1.154	“US Lenders”	30
1.155	“US Reference Bank”	30
1.156	“US Revolving Maximum Credit”	30
1.157	“US Tax Code”	30
1.158	“Value”	31
1.159	“Wachovia”	31
1.160	“WARN”	31
SECTION 2. CREDIT FACILITIES		31
2.1	Revolving Loans	31
2.2	Letter of Credit Accommodations	32
2.3	Tranche B Loan	35
2.4	Availability Reserves	38
2.5	Taxes	38
2.6	Hedge Agreements	39
SECTION 3. INTEREST AND FEES		40
3.1	Interest	40
3.2	Intentionally Deleted.	42
3.3	Intentionally Deleted.	42
3.4	Intentionally Deleted.	42
3.5	Intentionally Deleted.	42
3.6	Increased Costs and Changes in Law	42
SECTION 4. CONDITIONS PRECEDENT		44
4.1	Conditions Precedent to Amendment and Restatement	44
4.2	Conditions Precedent to All Loans and Letter of Credit Accommodations	47
SECTION 5. COLLECTION AND ADMINISTRATION		47
5.1	US Borrowers’ Loan Account	47
5.2	Statements	48
5.3	Collection of Accounts	48
5.4	Payments	50

5.5	Authorization to Make Loans and Letter of Credit Accommodations	54
5.6	Use of Proceeds	55
5.7	Obligations Several; Independent Nature of US Lenders' Rights	55
SECTION 6. COLLATERAL REPORTING AND COVENANTS		56
6.1	Collateral Reporting	56
6.2	Accounts Covenants	56
6.3	Inventory Covenants	58
6.4	Equipment Covenants	59
6.5	Power of Attorney	59
6.6	Right to Cure	60
6.7	Access to Premises	60
SECTION 7. REPRESENTATIONS AND WARRANTIES		61
7.1	Corporate Existence, Power and Authority; Subsidiaries	61
7.2	Financial Statements; No Material Adverse Change	61
7.3	Name; State of Organization; Chief Executive Office; Collateral Locations	61
7.4	Priority of Liens; Title to Properties	62
7.5	Tax Returns	62
7.6	Litigation	62
7.7	Compliance with Other Agreements and Applicable Laws	63
7.8	Bank Accounts	63
7.9	Accuracy and Completeness of Information	63
7.10	Status of Pension Plans	63
7.11	Environmental Compliance	65
7.12	U.S. Legislation	65
7.13	Intellectual Property	66
7.14	Subsidiaries; Affiliates; Capitalization; Solvency	67
7.15	Survival of Warranties; Cumulative	67
7.16	Inactive Subsidiaries	67
7.17	Labour Disputes	67
7.18	Interrelated Business	68
SECTION 8. AFFIRMATIVE AND NEGATIVE COVENANTS		68
8.1	Maintenance of Existence	68
8.2	New Collateral Locations	69
8.3	Compliance with Laws, Regulations, Etc.	69
8.4	Payment of Taxes and Claims	70
8.5	Insurance	70
8.6	Financial Statements and Other Information	71
8.7	Sale of Assets, Consolidation, Amalgamation, Dissolution, Merger, Etc.	73
8.8	Encumbrances	74
8.9	Indebtedness	74
8.10	Loans, Investments, Guarantees, Etc.	75
8.11	Dividends and Redemptions	75
8.12	Transactions with Affiliates	76
8.13	Intellectual Property	76

8.14	Additional Bank Accounts	76
8.15	Operation of Pension Plans	76
8.16	Costs and Expenses	78
8.17	Further Assurances	78
8.18	EBITDA	79
8.19	Inactive Subsidiaries	79
8.20	End of Fiscal Years; Fiscal Quarters	80
8.21	Change in Business	80
8.22	Fixed Charge Coverage Ratio	80
8.23	Maximum Total Debt	81
8.24	Maximum Capital Expenditures	83
8.25	After Acquired Real Property	84
SECTION 9. EVENTS OF DEFAULT AND REMEDIES		84
9.1	Events of Default	84
9.2	Remedies	86
SECTION 10. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW		94
10.1	Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver	94
10.2	Waiver of Notices	95
10.3	Amendments and Waivers	96
10.4	Waiver of Counterclaim	97
10.5	Indemnification	97
SECTION 11. TERM OF AGREEMENT; MISCELLANEOUS		97
11.1	Term	97
11.2	Notices	98
11.3	Partial Invalidity	98
11.4	Successors and Assignment	98
11.5	Entire Agreement	101
11.6	Headings	101
11.7	Judgment Currency	101
11.8	Interpretative Provisions	101
11.9	Counterparts	102
11.10	Joint and Several Liability	102
11.11	Tranche B Lenders Purchase Option	103
11.12	Revolving Lender Purchase Option	105
11.13	Competing Purchase Options	106
11.14	Canadian Obligation Purchase Requirement	106
SECTION 12. THE AGENT AND THE TRANCHE B AGENT		106
12.1	Appointment, Powers and Immunities	106
12.2	Reliance By Agent and Tranche B Agent	107
12.3	Events of Default	107
12.4	Agents in their Individual Capacity	108

12.5	Indemnification	108
12.6	Non-Reliance on Agent, Tranche B Agent and Other Lenders	109
12.7	Failure to Act	109
12.8	Concerning the Collateral and the Related Financing Agreements	110
12.9	Field Audit, Examination Reports and other Information; Disclaimer by Lenders	110
12.10	Collateral Matters	110
12.11	Agency for Perfection	112
12.12	Successor Agent and Tranche B Agent	112
12.13	Existing Security held for Obligations	113
SECTION 13. ACKNOWLEDGEMENT AND RESTATEMENT		113
13.1	Existing Obligations	113
13.2	Acknowledgment of Security Interests	113
13.3	Original US Loan Agreement	114
13.4	Restatement	114

**INDEX TO
EXHIBITS AND SCHEDULES**

Exhibit A	Information Certificates
<u>Schedule 1.10</u>	Form of Borrowing Base Certificate
<u>Schedule 1.49(f)</u>	Form of Billing Authorization Letter re: Accounts
<u>Schedule 1.49(g)</u>	Form of No-Offset Agreement re: Accounts
<u>Schedule 1.50</u>	Form of Inventory Purchase Agreement
<u>Schedule 1.61</u>	Description of Existing Security Agreements
<u>Schedule 1.89</u>	Major Customer Designated Facilities
<u>Schedule 1.97</u>	Mexican Security Documents
<u>Schedule 1.128</u>	Description of Revolving Loan Priority Collateral
<u>Schedule 7.4</u>	Existing Liens
<u>Schedule 7.8</u>	Bank Accounts
<u>Schedule 7.17</u>	Labour Disputes
<u>Schedule 8.9</u>	Existing Indebtedness
<u>Schedule 8.10</u>	Existing Loans, Advances and Guarantees

AMENDED AND RESTATED US LOAN AGREEMENT

This Amended and Restated US Loan Agreement dated August 3, 2007 is entered into by and between Wachovia Capital Finance Corporation (Central), formerly known as Congress Financial Corporation (Central), an Illinois corporation, in its capacity as lender of Revolving Loans hereunder (in such capacity together with its successors and assigns, "**Revolving Lender**") and in its capacity as agent (in such capacity together with its successors and assigns, "**Agent**"), Monroe Capital Management Advisors LLC, a Delaware limited liability company, in its capacity as agent for the Tranche B Lenders (in such capacity together with its successors and assigns, "**Tranche B Agent**"), the lenders party hereto from time to time as lenders of the Tranche B Loan (in such capacity together with their respective successors and assigns, collectively, "**Tranche B Lenders**" and individually a "**Tranche B Lender**"), SMTC Manufacturing Corporation of California, a California corporation, SMTC Manufacturing Corporation of Massachusetts, a Massachusetts corporation, and SMTC Mex Holdings, Inc., a Delaware corporation (collectively, "**US Borrowers**").

WITNESSETH:

WHEREAS US Borrowers, Revolving Lender and Agent are parties to the US Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, the "**Original US Loan Agreement**") pursuant to which Revolving Lender has made and may make loans and provide other financial accommodations to US Borrowers;

WHEREAS US Borrowers have requested that Agent and US Lenders amend and restate the Original US Loan Agreement pursuant to and in accordance with the terms and conditions set forth herein;

WHEREAS US Borrowers have asked Tranche B Lenders to extend credit to the US Borrowers consisting of a term loan in the aggregate principal amount of \$16,500,000, the proceeds of which shall be used to refinance certain existing indebtedness of US Borrowers, for general working capital purposes of US Borrowers and to pay fees and expenses related to this Agreement;

WHEREAS Tranche B Lenders are willing to become US Lenders under this Agreement and to make a term loan to US Borrowers and each other US Lender is willing to agree to amend and restate the Original US Loan Agreement and to make such loans and provide such financial accommodations to US Borrowers on the terms and conditions set forth in this Agreement and Agent is willing to act as agent, on behalf of Revolving Lender, Tranche B Agent and Tranche B Lenders, on the terms and conditions set forth in this Agreement and Tranche B Agent is willing to act as agent on behalf of Tranche B Lenders on the terms and conditions set forth in this Agreement;

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

SECTION 1. DEFINITIONS

All terms used herein which are defined in the UCC (as hereinafter defined) shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to US Borrowers, Revolving Lender, Tranche B Lender and Agent pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “including” when used in this Agreement shall mean “including, without limitation”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted, and/or consolidated from time to time and any successor statute thereto. An Event of Default (as hereinafter defined) shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 10.3 or is cured in a manner satisfactory to the Required Lenders (as hereinafter defined), if such Event of Default is capable of being cured as determined by the Required Lenders. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. “Canadian Dollars” and the sign “C\$” mean lawful money of Canada. “US Dollars” and the sign “US\$” mean lawful money of the US. All monetary amounts referred to in this Agreement are in US Dollars unless otherwise stated. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 “Accounts”

“Accounts” shall mean all present and future rights of each US Borrower to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 “Adjusted Libor Rate”

“Adjusted Libor Rate” shall mean, with respect to each Interest Period for any Libor Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16th) of one percent (1%)) determined by dividing:

- (a) the Libor Rate for such Interest Period by:
- (b) a fraction equal to:
 - (i) one (1); minus

(ii) the Reserve Percentage.

For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of US Dollars in a non-United States or an international banking office of the US Reference Bank, used to fund a Libor Rate Loan or any Libor Rate Loan made with the proceeds of such deposit, whether or not the US Reference Bank actually holds or has made any such deposits or loans. The Adjusted Libor Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage. At no time shall the Adjusted Libor Rate for any Interest Period be less than five (5%) percent per annum.

1.3 "Agent"

"Agent" shall have the meaning set forth in the preamble to this Agreement.

1.4 "Applicable Margin"

"Applicable Margin" shall mean the corresponding percentages per annum as set forth in the table below. The Applicable Margin shall be determined and adjusted quarterly on the date (each, a "Calculation Date") on which each US Borrower provides (or are required to provide) an Officer's Compliance Certificate pursuant to Section 8.6(a)(ii) for the most recently ended fiscal quarter of SMTC Corporation; provided, however, that (a) the Applicable Margin shall be based on Level I for the first full year following the Closing Date and thereafter the Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended fiscal quarter of SMTC Corporation preceding the applicable Calculation Date and (b) if US Borrowers fail to provide the Officer's Compliance Certificate as required by Section 8.6(a)(ii) for the most recently ended fiscal quarter of SMTC Corporation preceding the applicable Calculation Date, the Applicable Margin for such Calculation Date shall be based on Level I until such time as such Officer's Compliance Certificate is provided, at which time the Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended fiscal quarter of SMTC Corporation preceding such Calculation Date.

<u>Level</u>	<u>Total Leverage Ratio</u>	<u>Applicable Margin for Libor Rate Loans</u>	<u>Applicable Margin for Reference Rate Loans</u>
Level I	Greater than or equal to 2.50x	4.00%	1.25%
Level II	Less than 2.50x but greater than or equal to 2.00x	3.50%	0.75%
Level III	Less than 2.00x but greater than or equal to 1.50x	3.25%	0.50%
Level IV	Less than 1.50x	3.00%	0.25%

1.5 “Approved Fund”

“Approved Fund” shall mean with respect to any US Lender that is a fund or similar investment vehicle that makes or invests in commercial loans, any other fund or similar investment vehicle that invests in commercial loans which is managed or advised by the same investment advisor as such US Lender or by an affiliate of such investment advisor.

1.6 “Availability Reserves”

“Availability Reserves” shall mean, as of any date of determination, such amounts as Agent may from time to time establish and revise reducing the amount of the Revolving Loans and Letter of Credit Accommodations which would otherwise be available to US Borrowers under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Agent, do or, with the giving of notice or passage of time would, affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets, business or prospects of US Borrowers or any Obligor or (iii) the Liens and other rights of Agent, Tranche B Agent and US Lenders in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Agent’s belief that any collateral report or financial information furnished by or on behalf of any US Borrower or any Obligor to Agent is or may have been incomplete, inaccurate or misleading in any material respect or (c) to reflect outstanding Letter of Credit Accommodations as provided in Section 2.2 hereof or (d) to reflect Agent’s estimate of the amount of any Priority Payables Reserve, or (e) in respect of any state of facts which Agent determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default or (f) to reflect Agent’s good faith estimate of the amount of any reserve necessary to reflect changes or fluctuations in applicable currency exchange markets and exchange rates or to reflect the Mark to Market Exposure of any Hedge Agreement of US Borrowers.

1.7 “Bankruptcy Code”

“Bankruptcy Code” shall mean the United States Bankruptcy Code (11 U.S.C. § 101, et seq.), as amended, and any successor statute.

1.8 “Blocked Accounts”

“Blocked Accounts” shall have the meaning set forth in Section 5.3(a) hereof.

1.9 “Borrowing Base”

“Borrowing Base” shall mean, at any time, the US Dollar Amount equal to:

- (a) eighty-five (85%) percent of the Net Amount of Eligible Accounts; plus

(b) the least of: (i) fifty (50%) percent of the Value of Eligible Inventory consisting of raw materials and finished goods; or (ii) eighty-five (85%) percent of the appraised value of the Eligible Inventory expressed as a percentage of cost value, net of liquidation expenses, with appraisals conducted on an orderly liquidation basis at the expense of US Borrowers by independent appraisers acceptable to Agent and otherwise in accordance with Section 6.3; or (iii) twenty-five (25%) percent of the US Revolving Maximum Credit, minus

(c) any Availability Reserves.

For purposes only of applying the sub-limit on Revolving Loans based on Eligible Inventory pursuant to paragraph (b)(iii) immediately above, Agent may treat the then un-drawn amounts of outstanding Letter of Credit Accommodations for the purpose of purchasing Eligible Inventory as Revolving Loans to the extent Agent is in effect basing the issuance of the Letter of Credit Accommodations on the Value of the Eligible Inventory being purchased with such Letter of Credit Accommodations. In determining the actual amounts of such Letter of Credit Accommodations to be so treated for purposes of the sub-limit in paragraph (b)(iii) immediately above, the outstanding Revolving Loans and Availability Reserves shall be attributed first to any components of the lending formulas in the Borrowing Base that are not subject to such sub-limit, before being attributed to the components of the lending formulas subject to such sub-limit.

1.10 “Borrowing Base Certificate”

“Borrowing Base Certificate” shall mean a certificate executed by each US Borrower, in substantially the form attached hereto as Schedule 1.10, setting forth the Revolving Loans available to US Borrowers.

1.11 “Business Day”

“Business Day” shall mean a day (other than a Saturday, Sunday or statutory holiday in Ontario, Illinois or New York) on which Canadian Agent’s Toronto office, Agent’s Chicago office, Tranche B Agent’s Chicago office and banks in Toronto, Chicago, New York City and, with respect to Libor Rate Loans, London, England, are open for business in the normal course.

1.12 “Canadian Advances”

“Canadian Advances” shall mean, collectively, as of the date of determination, the aggregate outstanding amount of all loans and advances under the Canadian Loan Agreement as of such date.

1.13 “Canadian Agent”

“Canadian Agent” shall mean Wachovia Capital Finance Corporation (Canada), formerly known as Congress Financial Corporation (Canada), in its capacity as agent, pursuant to the terms of the Canadian Loan Agreement and any replacement or successor agent thereunder.

1.14 “Canadian Availability Reserves”

“Canadian Availability Reserves” shall mean “Availability Reserves” as such term is defined under the Canadian Loan Agreement.

1.15 “Canadian Borrower”

“Canadian Borrower” shall mean SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada.

1.16 “Canadian Borrowing Base”

“Canadian Borrowing Base” shall mean the “Borrowing Base” as such term is defined under the Canadian Loan Agreement.

1.17 “Canadian Eligible Accounts”

“Canadian Eligible Accounts” shall mean “Eligible Accounts” as such term is defined under the Canadian Loan Agreement.

1.18 “Canadian Excess Availability”

“Canadian Excess Availability” shall mean the US Dollar Amount, as determined by Agent, calculated at any time, equal to: (a) the lesser of: (i) the Canadian Borrowing Base subject to the sublimits and Canadian Availability Reserves established by Canadian Agent from time to time under the Canadian Loan Agreement and (ii) the Canadian Revolving Maximum Credit (less the Canadian Mark to Market Exposure of Canadian Borrower under all its Canadian Hedge Agreements) minus (b) the sum of: (i) the US Dollar Amount of all then outstanding and unpaid Canadian Revolving Loans and Canadian Letter of Credit Accommodations plus (ii) the aggregate amount of (x) all due but unpaid tax obligations as of such time and (y) all trade payables of Canadian Borrower that are past due for more than 60 days as of such time.

1.19 “Canadian Financing Agreements”

“Canadian Financing Agreements” shall mean “Financing Agreements” as such term is defined under the Canadian Loan Agreement.

1.20 “Canadian Hedge Agreements”

“Canadian Hedge Agreements” shall mean “Hedge Agreements” as such term is defined under the Canadian Loan Agreement.

1.21 “Canadian Hedging Liabilities”

“Canadian Hedging Liabilities” shall mean “Hedging Liabilities” as such term is defined under the Canadian Loan Agreement.

1.22 “Canadian Lenders”

“Canadian Lenders” shall collectively mean Wachovia Capital Finance Corporation (Canada) and Canadian Tranche B Lenders as lenders pursuant to the Canadian Loan Agreement.

1.23 “Canadian Letter of Credit Accommodations”

“Canadian Letter of Credit Accommodations” shall mean letters of credit, merchandise purchase or other guarantees issued or arranged by Canadian Revolving Lender for Canadian Borrower or any Obligor under or in connection with the Canadian Financing Agreements.

1.24 “Canadian Loan Agreement”

“Canadian Loan Agreement” shall mean the Amended and Restated Canadian Loan Agreement dated the Closing Date between Canadian Borrower, Canadian Agent, Canadian Tranche B Agent and Canadian Lenders, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.25 “Canadian Loans”

“Canadian Loans” shall mean the “Loans” as such term is defined under the Canadian Loan Agreement.

1.26 “Canadian Mark to Market Exposure”

“Canadian Mark to Market Exposure” shall mean “Mark to Market Exposure” as such term is defined under the Canadian Loan Agreement.

1.27 “Canadian Obligations”

“Canadian Obligations” shall mean the “Obligations” as such term is defined under the Canadian Loan Agreement.

1.28 “Canadian Priority Event”

“Canadian Priority Event” shall mean “Priority Event” as such term is defined under the Canadian Loan Agreement.

1.29 “Canadian Revolving Lender”

“Canadian Revolving Lender” shall mean “Revolving Lender” as such term is defined under the Canadian Loan Agreement.

1.30 “Canadian Revolving Loans”

“Canadian Revolving Loans” shall mean “Revolving Loans” as such term is defined under the Canadian Loan Agreement.

1.31 “Canadian Revolving Maximum Credit”

“Canadian Revolving Maximum Credit” shall mean US\$40,000,000 minus the outstanding Revolving Loans, Letter of Credit Accommodations and Mark to Market Exposure of US Borrowers under all their Hedge Agreements. For greater certainty, the aggregate of the US Revolving Maximum Credit and the Canadian Revolving Maximum Credit shall at no time exceed US\$40,000,000.

1.32 “Canadian Special Agent Advances”

“Canadian Special Agent Advances” shall mean “Special Agent Advances” as such term is defined under the Canadian Loan Agreement.

1.33 “Canadian Special Tranche B Agent Advances”

“Canadian Special Tranche B Agent Advances” shall mean “Special Tranche B Agent Advances” as such term is defined under the Canadian Loan Agreement.

1.34 “Canadian Tranche B Agent”

“Canadian Tranche B Agent” shall mean Monroe Capital Management Advisors LLC as agent for the lenders of the Canadian Tranche B Loan.

1.35 “Canadian Tranche B Loan”

“Canadian Tranche B Loan” shall mean “Tranche B Loan” as such term is defined in the Canadian Loan Agreement.

1.36 “Canadian Tranche B Lenders”

“Canadian Tranche B Lenders” shall mean “Tranche B Lenders” as such term is defined under the Canadian Loan Agreement.

1.37 “Capital Expenditures”

“Capital Expenditures” shall mean all expenditures for, or contracts for expenditures for, any fixed or capital assets or improvements, or for replacements, substitutions or additions thereto, which have a useful life of more than one (1) year, including the direct or indirect acquisition of such assets by way of offset items or otherwise and shall include the principal amount of payments under Capital Leases during the applicable period.

1.38 “Capital Lease”

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

1.39 “CCAA”

“CCAA” shall mean the *Companies’ Creditors Arrangement Act* (Canada).

1.40 “Closing Date”

“Closing Date” shall mean August 3, 2007 or such later date as the conditions precedent to effectiveness set forth in Section 4.1 hereof are satisfied in the sole discretion of Agent and Tranche B Agent.

1.41 “Collateral”

“Collateral” shall mean all of the undertaking, property and assets, present and future, real and personal, of each US Borrower and any other Obligor now or hereafter pledged, charged, assigned, transferred and/or encumbered to secure, either directly or indirectly, repayment of any of the Obligations.

1.42 “Combined Eligible Accounts”

“Combined Eligible Accounts” shall mean, collectively, Canadian Eligible Accounts and Eligible Accounts.

1.43 “Consolidated Net Income”

“Consolidated Net Income” shall mean, with respect to any Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries, on a consolidated basis, for such period (excluding to the extent included therein any extraordinary or non-recurring gains and extraordinary non-cash charges and not more than US\$750,000 in any fiscal year of extraordinary cash charges) after deducting all charges which should be deducted before arriving at the net income (loss) for such period and after deducting the Provision for Taxes for such period, all as determined in accordance with GAAP; provided, that, (a) the net income of any Person that is not a wholly-owned Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid or payable to such Person or a wholly-owned Subsidiary of such Person; (b) except to the extent included pursuant to the foregoing clause, the net income of any Person accrued prior to the date it becomes a wholly-owned Subsidiary of such Person or is merged into or consolidated with such Person or any of its wholly-owned Subsidiaries or that Person’s assets are acquired by such Person or by any of its wholly-owned Subsidiaries shall be excluded; (c) the effect of any change in accounting principles adopted by such Person or its Subsidiaries after the Closing Date shall be excluded; (d) net income shall exclude interest accruing, but not paid, on indebtedness owing to a Subsidiary or parent corporation of such Person, which is subordinated in right of payment to the payment in full of the Obligations, on terms and conditions acceptable to Agent; and (e) the net income (if positive) of any wholly-owned Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such wholly-owned Subsidiary to such Person or to any other wholly-owned Subsidiary of such Person is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such wholly-owned Subsidiary shall be excluded. For the purposes of this definition, net income excludes any gain and non-cash loss (but not any cash loss) together with any related Provision for Taxes for such gain and non-cash loss (but not any cash loss) realized upon the sale or other disposition of any assets that are not sold in the ordinary course of business (including dispositions pursuant to sale and leaseback transactions) or of any capital stock of such Person or a Subsidiary of such Person.

1.44 “Control”

“Control” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or by contract or otherwise and, when determining control based on ownership of voting securities, means, with respect to control of a body corporate by a Person, the holding (other than by way of security only) by or for the benefit of that Person, or affiliates of that Person of securities of such body corporate or the right to vote or direct the voting of securities of such body corporate to which, in the aggregate, are attached more than 50% of the votes that may be cast to elect directors of the body corporate, provided that the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the body corporate.

1.45 “Debt Offering”

“Debt Offering” shall mean any incurrence of indebtedness by SMTC Corporation and its Subsidiaries on terms and conditions approved in writing by Agent and Tranche B Agent including that such indebtedness is fully subordinated in right of payment to the Obligations and the Canadian Obligations.

1.46 “Default”

“Default” shall mean an event, circumstance or omission which, with any of the giving of notice, a lapse of time or a failure to remedy the event, circumstance or omission within a lapse of time, would constitute an Event of Default.

1.47 “Deposit Account Control Agreement”

“Deposit Account Control Agreement” shall have the meaning set forth in Section 5.3(a) hereof.

1.48 “EBITDA”

“EBITDA” shall mean, as to any Person, with respect to any period, an amount equal to: (i) the Consolidated Net Income of such Person for such period, plus (ii) depreciation and amortization for such period (to the extent deducted in the computation of Consolidated Net Income of such Person), all in accordance with GAAP, plus (iii) Interest Expense for such period (to the extent deducted in the computation of Consolidated Net Income of such Person), plus (iv) the Provision of Taxes for such period (to the extent deducted in the computation of Consolidated Net Income of such Person).

1.49 “Eligible Accounts”

“Eligible Accounts” shall mean Accounts created by each US Borrower which are and continue to be acceptable to Agent based on the criteria set forth below. In general, Accounts shall be Eligible Accounts if:

(a) such Accounts arise from the actual and *bona fide* sale and delivery of goods by a US Borrower or rendition of services by a US Borrower in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts are not unpaid for more than: (i) sixty (60) days after the original due date; or (ii) ninety (90) days after the date of the original invoice for them; or (iii) one hundred twenty (120) days after the date of the original invoice for such Accounts agreed to in writing by Agent in its sole discretion;

(c) such Accounts comply with the terms and conditions contained in Section 6.2(c) of this Agreement;

(d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;

(e) the chief executive office of the account debtor with respect to such Accounts is located in the US or Canada and the Account is payable in Canadian Dollars or US Dollars or, if the chief executive office of the account debtor with respect to such Accounts is not located in the US or Canada, at Agent's option, if either: (i) the account debtor has delivered to such US Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Agent and payable only in the United States in the currency in which the Account is denominated, sufficient to cover such Account, in form and substance satisfactory to Agent and, if required by Agent, the original of such letter of credit has been delivered to Agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Agent; or (ii) such Account is subject to credit insurance payable to Agent issued by an insurer and on terms and in an amount acceptable to Agent; or (iii) such Account is otherwise acceptable in all respects to Agent (subject to such lending formula with respect thereto as Agent may determine); or (iv) if the account debtor is a non-Canadian or non-US affiliate or subsidiary of a Major Customer, the Major Customer issues a guarantee in writing, in favor of such US Borrower and Agent, in form and substance satisfactory to Agent, guaranteeing payment of the applicable Account to such US Borrower and Agent;

(f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Agent shall have received an agreement (each, a "**Billing Authorization Letter re: Accounts**"), in writing, from the account debtor in substantially the form attached as Schedule 1.49(f) hereto and in form and substance satisfactory to Agent, confirming the unconditional obligation of the account debtor to take delivery of the goods related thereto and pay such invoice without set-off of any kind;

(g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of set-off against such Accounts; provided, however (i) the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by applicable US Borrower to such account debtor or claimed owed by such account debtor may be deemed Eligible Accounts and (ii) if Agent shall have received an agreement (each, a "**No-Offset Agreement re: Accounts**"), in writing, from the account debtor in substantially the form

attached as Schedule 1.49(g) hereto and in form and substance satisfactory to Agent, waiving any and all rights of set-off of or in respect of such Accounts, such Accounts may be deemed Eligible Accounts;

(h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;

(i) such Accounts are subject to the first priority, valid and perfected Lien in favor of Agent and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any Liens except those permitted in this Agreement;

(j) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an officer, employee or agent of or affiliated with a US Borrower directly or indirectly by virtue of family membership, ownership, control, management or otherwise;

(k) the account debtors with respect to such Accounts are not any foreign government, the federal government of the US, any State, political subdivision, department, agency or instrumentality thereof unless, if the account debtor is the federal government of the US, any State, political subdivision, department, agency or instrumentality thereof, upon Agent's request, the *Federal Assignment of Claims Act* of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Agent;

(l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;

(m) such Accounts of a single account debtor or its affiliates do not constitute more than thirty (30%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such thirty (30%) percent threshold may be deemed Eligible Accounts;

(n) such Accounts are not owed by an account debtor who has Accounts unpaid more than ninety (90) days after the date of the original invoice for them which constitute more than fifty (50%) percent of the total Accounts of such account debtor;

(o) such Accounts are owed by account debtors whose total indebtedness to US Borrowers does not exceed the credit limit with respect to such account debtors as determined by Agent from time to time (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Accounts);

(p) such Accounts are owed by account debtors deemed creditworthy at all times by Agent, as determined by Agent.

General criteria for Eligible Accounts may be established and revised from time to time by Agent. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.50 “Eligible Inventory”

“Eligible Inventory” shall mean Inventory consisting of finished goods held for resale in the ordinary course of the business of each US Borrower and raw materials for such finished goods which are acceptable to Agent based on the criteria set forth below. In general, Eligible Inventory shall not include (a) work-in-process including components which are not part of finished goods; (b) spare parts for equipment; (c) packaging and shipping materials; (d) supplies used or consumed in a US Borrower’s business; (e) Inventory at premises which are not owned and controlled by a US Borrower, except if: (A) in respect of Inventory located at Major Customer Designated Facilities, Agent shall have received, in writing, inventory purchase agreements (each, a “**Inventory Purchase Agreement**”), in substantially the form attached as Schedule 1.50 hereto and in form and substance satisfactory to Agent, executed by the relevant Major Customers, applicable US Borrower, Agent and any other necessary party; and (B) in respect of all other Inventory at premises which are not owned and controlled by a US Borrower, Agent shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Agent acknowledging Agent’s first priority Lien in the Inventory, waiving all Liens and claims by such person against the Inventory and permitting Agent access to, and the right to remain on, the premises so as to exercise Agent’s and/or Lender’s rights and remedies and otherwise deal with the Collateral; (f) Inventory subject to a Lien in favor of any person other than Agent except those permitted in this Agreement; (g) bill and hold goods; (h) unserviceable, obsolete, expired or slow moving Inventory; (i) Inventory which is not subject to the first priority, valid and perfected Lien of Agent; (j) returned, damaged and/or defective Inventory; (k) Inventory purchased or sold on consignment; and (l) subject to paragraph (e)(A) immediately above, Inventory located outside of the US including Inventory located in Chihuahua, Mexico.

General criteria for Eligible Inventory may be established and revised from time to time by Agent. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.51 “Enforcement Action”

“Enforcement Action” shall mean the exercise by Agent (or its assignee, designee, affiliates or agents) in good faith and in a commercially reasonable manner of any of its material enforcement rights and remedies as a secured creditor under this Agreement or other Financing Agreements, applicable law or otherwise, in respect of any of the Collateral including the Mexican Obligor Collateral, at any time following the occurrence of an Event of Default.

1.52 “Environmental Laws”

“Environmental Laws” shall mean with respect to any Person all federal (US and Canada), state, provincial, district, local, municipal and foreign laws, statutes, rules, regulations, ordinances, orders, directives, permits, licenses and consent decrees relating to health, safety, hazardous, dangerous or toxic substances, waste or material, pollution and environmental matters, as now or at any time hereafter in effect, applicable to such Person and/or its business and facilities (whether or not owned by it), including laws relating to emissions, discharges, releases or threatened releases of pollutants, contamination, chemicals, or hazardous, toxic or dangerous

substances, materials or wastes into the environment (including ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals, or hazardous, toxic or dangerous substances, materials or wastes. The term “Environmental Laws” includes (i) the U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, the U.S. Federal Superfund Amendments and Reauthorization Act, the U.S. Federal Water Pollution Control Act of 1972, the U.S. Federal Clean Water Act, the U.S. Federal Clean Air Act, the U.S. Federal Resource Conservation and Recovery Act of 1976 (including the Hazardous and Solid Waste Amendments thereto), the U.S. Federal Solid Waste Disposal and the U.S. Federal Toxic Substances Control Act, the U.S. Federal Insecticide, Fungicide and Rodenticide Act, the U.S. Federal Safe Drinking Water Act of 1974, (ii) applicable State or local counterparts to such laws and (iii) any common law or equitable doctrine that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Materials.

1.53 “Equipment”

“Equipment” shall mean all of each US Borrower’s now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.54 “Equity Offering”

“Equity Offering” shall mean any issuance of shares or equity interests of SMTC Corporation on terms and conditions approved in writing by Agent and Tranche B Agent.

1.55 “Equivalent Amount”

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

1.56 “ERISA”

“ERISA” shall mean the *Employee Retirement Income Security Act of 1974* of the US together with all rules, regulations and interpretations thereunder or related thereto, as amended from time to time.

1.57 “ERISA Affiliate”

“ERISA Affiliate” shall mean any person required to be aggregated with a US Borrower or any of its respective Subsidiaries under Section 414(b), 414(c), 414(m) or 414(o) of the U.S. Tax Code.

1.58 “ERISA Event”

“ERISA Event” shall mean (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Pension Plan; (b) the adoption of any amendment to a Pension Plan that would require the provision of security pursuant to Section 401(a)(29) of the U.S. Tax Code or Section 307 of ERISA; (c) the existence with respect to any Pension Plan of an “accumulated funding deficiency” (as defined in Section 412 of the U.S. Tax Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412 of the U.S. Tax Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Pension Plan; (e) the occurrence of a “prohibited transaction” with respect to which a US Borrower or any of its Subsidiaries is a “disqualified person” (within the meaning of Section 4975 of the U.S. Tax Code) or with respect to which a US Borrower or any of its Subsidiaries could otherwise be liable; (f) a complete or partial withdrawal by a US Borrower or any ERISA Affiliate from a Multiemployer Plan or a cessation of operations which is treated as such a withdrawal or notification that a Multiemployer Plan is in reorganization; (g) the filing of a notice of intent to terminate, the treatment of a Pension Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the Pension Benefit Guaranty Corporation to terminate, a Pension Plan; (h) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (i) the imposition of any liability under Title IV of ERISA, other than the Pension Benefit Guaranty Corporation premiums due but not delinquent under Section 4007 of ERISA, upon a US Borrower or any ERISA Affiliate in excess of US\$50,000 and (j) any other event or condition with respect to a Pension Plan including any Pension Plan subject to Title IV of ERISA maintained, or contributed by, by any ERISA Affiliate that could reasonably be expected to result in liability of a US Borrower in excess of US\$50,000.

1.59 “Excess Cash Flow”

“Excess Cash Flow” shall mean, in respect of any fiscal year of SMTC Corporation, EBITDA for SMTC Corporation and its Subsidiaries, calculated on a consolidated basis and in accordance with GAAP, less, to the extent not already deducted in determining such EBITDA: (A) interest and loan servicing fees paid or payable in respect of indebtedness during such period; (B) income taxes paid or payable for such period; (C) principal payments in respect of term indebtedness during such period; and (D) capital expenditures made in such fiscal year (plus capital expenditures permitted to be carried forward to the next fiscal year pursuant to Section 8.24) pursuant to the Financing Agreements and Canadian Financing Agreements during such period.

1.60 “Existing Security”

“Existing Security” shall mean the Liens granted pursuant to the Existing Security Agreements.

1.61 “Existing Security Agreements”

“Existing Security Agreements” shall mean the security agreements described on Schedule 1.61 hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.62 “Event of Default”

“Event of Default” shall mean the occurrence or existence of any event or condition described in Section 9.1 hereof.

1.63 “Financing Agreements”

“Financing Agreements” shall mean, collectively, this Agreement, the General Security Agreement, the Mexican Negative Pledge Agreement, the Mexican Undertaking, the Mexican Security Documents, the Hedge Agreements, Tranche B Loan Fee Letter and all notes, guarantees, security agreements, charges, mortgages, pledges, assignments and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by a US Borrower or any Obligor in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.64 “Fixed Charge Coverage Ratio”

“Fixed Charge Coverage Ratio” shall mean, with respect to SMTC Corporation and its Subsidiaries on a consolidated basis for any period determined in accordance with GAAP, the ratio of (a) EBITDA for such period less unfunded capital expenditures for such period to (b) the sum of all Fixed Charges for such period.

1.65 “Fixed Charges”

“Fixed Charges” shall mean, with respect to SMTC Corporation and its subsidiaries on a consolidated basis for any period determined in accordance with GAAP, (a) the aggregate of all Interest Expense payable in cash for such period, plus (b) the cash portion of dividends paid by SMTC Corporation and its Subsidiaries during such period, plus (c) scheduled principal payments, Capital Lease payments, deferred obligations to reimburse a letter of credit issuing bank after a draw on such letter of credit and redemption obligations of indebtedness which, in each case, were originally scheduled to be paid in cash during such period, plus (d) taxes payable in cash for such period.

1.66 “Full Control Notice”

“Full Control Notice” shall have the meaning set forth in Section 5.3 hereof.

1.67 “GAAP”

“GAAP” shall mean generally accepted accounting principles in the US as in effect from time to time as set forth in the opinions and pronouncements of the relevant US public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied.

1.68 “General Security Agreement”

“General Security Agreement” shall mean the general security agreement dated June 1, 2004 given by each US Borrower and SMTC Manufacturing Corporation of Wisconsin in favor of Agent in respect of the Obligations, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.69 “Hazardous Materials”

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

1.70 “Hedge Agreement”

“Hedge Agreement” shall mean a contract with Revolving Lender or its Affiliates for the purchase of any currency with any other currency at an agreed rate of exchange on a specified date, an interest rate or currency swap or any other interest or exchange rate exposure management arrangements.

1.71 “Hedging Liabilities”

“Hedging Liabilities” shall mean, with respect to US Borrowers and with respect to Revolving Lender or its Affiliates at any date of calculation, an amount equal to the aggregate of all amounts that would be owing to it by US Borrowers, on an aggregate basis under all Hedge Agreements if those agreements were terminated on the date of calculation. Unless netting or setting off is not permitted as a result of the operation of law or judicial authority, the Hedging Liabilities of US Borrowers shall equal the amount so determined after netting or setting off any amounts which might be owing under the Hedge Agreements by Revolving Lender or its Affiliates to US Borrowers on that date. If netting or setting off is not permitted as a result of the operation of law or judicial authority, the Hedging Liabilities of US Borrowers shall equal the amount owing by US Borrowers to Revolving Lender or its Affiliates under all such Hedge Agreements without netting or setting off any amounts which might be owing by Revolving Lender or its Affiliates to US Borrowers under the Hedge Agreements on that date.

1.72 “HTM”

“HTM” shall mean HTM Holdings, Inc., a Delaware corporation.

1.73 “Inactive Subsidiaries”

“Inactive Subsidiaries” shall mean, collectively, SMTC Manufacturing Corporation of Colorado, a Colorado corporation, Qualtron Inc., a Massachusetts corporation, SMTC Ireland Company, an Irish corporation, SMTC Manufacturing Corporation of Ireland Limited, an Irish corporation, SMTC Teoranta, an Irish corporation, SMTC R&D Teoranta, an Irish corporation, SMTC Mexico, S.A. de C.V., a Mexican corporation, 940862 Ontario Inc., an Ontario corporation, SMTC Manufacturing Corporation of Wisconsin, a Wisconsin corporation, SMTC Manufacturing Corporation of North Carolina, a North Carolina corporation, and SMTC Manufacturing Corporation of Texas, a Texas corporation, and “Inactive Subsidiary” shall mean any one of them individually.

1.74 “Information Certificate”

“Information Certificate” shall mean the Information Certificate of each US Borrower constituting Exhibit A hereto containing information with respect to each US Borrower and each Obligor, their respective business and assets provided by or on behalf of each US Borrower to Agent, Tranche B Agent, Canadian Agent, Canadian Tranche B Agent and US Lenders in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.75 “Interest Expense”

“Interest Expense” shall mean, with respect to SMTC Corporation and its Subsidiaries, on a consolidated basis for any period, interest expense (whether cash or non-cash) as to any Person, as determined in accordance with GAAP.

1.76 “Interest Payment Date”

“Interest Payment Date” shall mean the first Business Day of each calendar month, the first Interest Payment Date being September 3, 2007 and the last Interest Payment Date being the Maturity Date.

1.77 “Interest Period”

“Interest Period” shall mean a period, the first being the period from and including the Closing Date to and including September 3, 2007 and thereafter being each period of one month from and including the Interest Payment Date except that US Borrowers may not elect an Interest Period which will end after the Maturity Date.

1.78 “Interest Rate”

“Interest Rate” shall mean an annual rate of interest equal to the Prime Rate for Revolving Loans and other non-contingent US Dollar denominated Obligations (other than the Tranche B Loan); provided that “**Interest Rate**” shall mean an annual rate of interest of three (3%) percent per annum in excess of the Prime Rate for Revolving Loans, at Agent’s option, without notice, (A) on non-contingent Obligations (i) for the period on and after the date of termination or non-renewal of the Revolving Loans until such time as Revolving Lender and Agent have received

full and final payment of all such Obligations and (ii) for the period from and after the date of the occurrence of an Event of Default so long as such Event of Default is continuing as determined by Agent (notwithstanding entry of any judgment against a US Borrower) and (B) on the Revolving Loans at any time outstanding in excess of the amounts available to US Borrowers under Section 2 hereof (whether or not such excess(es) arise or are made with or without Agent's knowledge or consent and whether made before or after an Event of Default) (a "**Revolving Loans Excess Position**") until such time as the Revolving Loans outstanding are no longer in a Revolving Loans Excess Position; provided however, in the event the Revolving Loans are in a Revolving Loans Excess Position solely as a result of a subjective exercise of Agent's discretion to revise the Availability Reserves pursuant to Section 2 hereof and absent objective circumstances or events to justify same, the Interest Rate for the purposes of subparagraph (B) shall come into effect on the fifth (5) Business Day following written notice of same given by Agent to US Borrowers.

1.79 "Inventory"

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

1.80 "ISDA"

"ISDA" shall mean International Swaps and Derivatives Association, Inc.

1.81 "Junior Participation"

"Junior Participation" shall have the meaning set forth in Section 5.4(b) hereof.

1.82 "Leased Real Property"

"Leased Real Property" means, collectively, all real property which is subject to a lease, agreement to lease, tenancy, license and/or other occupancy agreement with respect to all or any part of such real property and in respect of which a US Borrower and/or any Obligor is a tenant, lessee, licensee and/or occupant.

1.83 "Letter of Credit Accommodations"

"Letter of Credit Accommodations" shall mean the letters of credit, merchandise purchase or other guarantees denominated in US Dollars which are from time to time either (a) issued or opened by Revolving Lender for the account of a US Borrower or any Obligors or (b) with respect to which Revolving Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by a US Borrower of its obligations to such issuer.

1.84 "Libor Rate"

"Libor Rate" shall mean, for each Interest Period, the rate of interest per annum (expressed as a percentage on the basis of a 360-day year) being the rate published as the London interbank offered rate in The Wall Street Journal, Eastern Edition on the day which is two (2) Business

Days before the first day of such Interest Period for offering deposits in US Dollars for a period comparable to the applicable Interest Period and if for any reason, the London interbank offered rate is not available in the Wall Street Journal, Eastern Edition, then the Libor Rate will be the rate of interest per annum (expressed as a percentage calculated on the basis of a 360-day year) equal to the average (rounded upward to the nearest whole multiple of 1/16 of one (1%) percent per annum) of the rates per annum which leading banks in the London interbank markets are offering deposits in US Dollars and for the said amount for a period equal to the relevant Interest Period appearing on the Reuters Screen LIBO Page (at or about 11:00 a.m. London time) on the day which is two (2) Business Days before the first day of such Interest Period; provided that, at no time following the first full year after the Closing Date shall the Libor Rate for any Interest Period be less than three and one half (3.5%) percent per annum.

1.85 “Libor Rate Loan”

“Libor Rate Loan” shall mean any portion of the Tranche B Loan on which interest is payable based on the Adjusted Libor Rate in accordance with the terms hereof.

1.86 “Lien”

“Lien” shall mean any mortgage, deed of trust, pledge, fixed or floating charge, lien, security interest, hypothec or encumbrance or security arrangement of any nature whatsoever, whether arising by written or oral agreement or by operation of law, including but not limited to any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

1.87 “Loans”

“Loans” shall mean the Revolving Loans and the Tranche B Loan.

1.88 “Major Customer”

“Major Customer” shall mean Harris Corporation, MEI, Inc., Ingenico SA and IBM subject to Agent being satisfied, in its sole discretion, with the creditworthiness of such Person.

1.89 “Major Customer Designated Facilities”

“Major Customer Designated Facilities” means the business locations owned, leased and/or operated by a Major Customer as more particularly set forth in Schedule 1.89.

1.90 “Mark to Market Exposure”

“Mark to Market Exposure” in connection with US Borrowers’ liability under its Hedge Agreements means, as at the Measurement Date, the “Early Termination Amount” that would be payable by US Borrowers under such Hedge Agreements as though such day was an “Early Termination Date” and the “Transaction” was a “Terminated Transaction” in accordance with the payment measures provided for in Section 6(e)(i) of the 2002 ISDA Master Agreement as published by ISDA as amended or replaced from time to time. For the purposes of this Agreement, such liability shall be expressed in the US Dollar Amount as at the end of any such

month. Furthermore, the amount of such liability shall be established by Agent in good faith after consultation with the relevant counterparties to such Hedge Agreements who themselves shall determine same in accordance with the aforementioned payment measures.

1.91 “Material Adverse Effect”

“Material Adverse Effect” shall mean a material adverse effect on (a) the business, assets, operations, prospects or financial condition of a US Borrower or any Obligor; (b) a US Borrower’s or any Obligor’s ability to pay any of the Loans or any of the other Obligations in accordance with the terms of this Agreement; (c) the Agent’s Liens in the Collateral or the priority, effectiveness or enforceability of such Liens; or (d) Agent’s or US Lenders’ or Tranche B Agent’s rights or remedies under this Agreement and the other Financing Agreements.

1.92 “Maturity Date”

“Maturity Date” shall mean the date which is the earlier to occur of (i) the day 5 years and 1 day from the Closing Date and (ii) the termination of this Agreement pursuant to the terms hereof.

1.93 “Measurement Date”

“Measurement Date” shall mean the last Business Day of the prior calendar month or such other date as Agent may determine in its sole discretion.

1.94 “Mexican Negative Pledge Agreement”

“Mexican Negative Pledge Agreement” shall mean the negative pledge agreement dated June 1, 2004 made by Mexican Obligors in favour of certain US Lenders and Canadian Revolving Lender, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.95 “Mexican Obligor Collateral”

“Mexican Obligor Collateral” shall mean (a) all of the undertaking, property and assets, present and future, real and personal, of each of the Mexican Obligors and (b) inventory, machinery, equipment, shares and leasehold improvements owned by SMTC Mex Holdings, Inc. located in Mexico (excluding however any Account of SMTC Mex Holdings, Inc. arising from the sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business before the occurrence of a Priority Event), in each case now or hereafter pledged, charged, assigned, transferred and/or encumbered to secure, either directly or indirectly, repayment of any of the Obligations.

1.96 “Mexican Obligors”

“Mexican Obligors” shall mean each of SMTC de Chihuahua, S.A. de C.V. and Radio Componentes de Mexico, S.A. de C.V.

1.97 “Mexican Security Documents”

“Mexican Security Documents” shall mean the security documents set forth on Schedule 1.97 attached hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.98 “Mexican Undertaking”

“Mexican Undertaking” shall mean the undertaking dated June 1, 2004 given by SMTC Corporation and others in favour of certain US Lenders with respect to Mexican Obligors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.99 “Monroe”

“Monroe” shall mean Monroe Capital Management Advisors LLC.

1.100 “Moody’s”

“Moody’s” shall mean Moody’s Investor Services, Inc., or any successor thereto.

1.101 “Multiemployer Plan”

“Multiemployer Plan” shall mean a “multi-employer plan” as defined in Section 4001(a)(3) of ERISA which is or was at any time during the current year or the immediately preceding six (6) years contributed to by a US Borrower or any ERISA Affiliate or with respect to which a US Borrower or any ERISA Affiliate may incur any liability.

1.102 “Net Amount of Eligible Accounts”

“Net Amount of Eligible Accounts” shall mean the gross US Dollar Amount of Eligible Accounts less: (a) sales, excise or similar taxes included in the amount thereof; and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect to such Eligible Accounts; provided that the amounts deducted under clause (a) shall not duplicate items for which Availability Reserves have been established by Agent.

1.103 “Obligations”

“Obligations” shall mean any and all Loans, Letter of Credit Accommodations, Hedging Liabilities and all other obligations, liabilities and indebtedness of every kind, nature and description owing by a US Borrower or any Obligor to any of Agent, Tranche B Agent or US Lenders (and/or their affiliates with respect to Hedging Liabilities), including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement and the other Financing Agreements or applicable laws whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any proceeding with respect to a US Borrower or any Obligor under the Bankruptcy Code or any

similar statute in any jurisdiction (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured.

1.104 “Obligor”

“Obligor” shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than US Borrowers.

1.105 “Officer’s Compliance Certificate”

“Officer’s Compliance Certificate” shall have the meaning set forth in Section 8.6(a) hereof.

1.106 “Original Canadian Loan Agreement”

“Original Canadian Loan Agreement” shall mean the Canadian Loan Agreement dated as of June 1, 2004 between Canadian Agent, Canadian Revolving Lender and Canadian Borrower as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 17, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 30, 2006.

1.107 “Original US Loan Agreement”

“Original US Loan Agreement” shall have the meaning set forth in the preamble to this Agreement.

1.108 “Payment Account”

“Payment Account” shall have the meaning set forth in Section 5.3(a) hereof.

1.109 “PBGC”

“PBGC” shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

1.110 “Pension Plans”

“Pension Plans” shall mean, collectively, employee benefit plans as defined in Section 3(3) of ERISA, which a US Borrower or any ERISA Affiliate sponsors, maintains, or to which it makes, is making, or is obligated to make contributions (or to which it has made contributions at any time during the immediately preceding six (6) plan years) and in respect of which a US Borrower or any ERISA Affiliate could have any liability.

1.111 “Person” or “person”

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

1.112 “PPSA”

“PPSA” shall mean the *Personal Property Security Act* (Ontario), as amended, supplemented, restated and superseded, in whole or in part, from time to time, provided that, if the attachment, perfection or priority of Agent’s security in respect of any Collateral is governed by the laws of any jurisdiction other than Ontario, PPSA shall mean those other laws for the purposes hereof relating to attachment, perfection or priority.

1.113 “Priority Event”

“Priority Event” shall mean the occurrence of any one or more of the following: (i) the occurrence and continuance of an Event of Default under Section 9.1(a) hereof with respect to a US Borrower’s failure to pay any of the Obligations arising pursuant to the Revolving Loans (including principal, interest, fees and expenses attributable thereto); (ii) the occurrence and continuance of an Event of Default under Sections 9.1(f), 9.1(g) or 9.1(h) hereof; (iii) the occurrence of any other Event of Default and the acceleration by Agent of the payment of all or a material portion of the Obligations; (iv) Agent shall have received a Tranche B Loan Action Default Notice; (v) US Borrowers failure to make a repayment of the Tranche B Loan from Excess Cash Flow within thirty (30) days pursuant to Section 2.3(b)(ii) hereof; or (vi) the occurrence and continuance of a Canadian Priority Event.

1.114 “Priority Payables Reserve”

“Priority Payables Reserve” shall mean, at any time, the full amount of the liabilities at such time which have a trust imposed to provide for payment or Lien ranking or capable of ranking senior to or *pari passu* with Liens or charges securing the Obligations on any of the Collateral under Federal, provincial, State, county, municipal, or local law including, but not limited, to claims for unremitted and accelerated rents, taxes, wages, vacation pay, workers’ compensation obligations, government royalties or pension fund obligations, together with the aggregate value, determined in accordance with GAAP, of all Eligible Inventory which Agent considers may be or may become subject to a right of a supplier to recover possession thereof under any Federal, provincial, State, county, municipal or local law, where such supplier’s right may have priority over the Liens securing the Obligations including Eligible Inventory subject to a right of a supplier to repossess goods pursuant to the Bankruptcy Code or any applicable reorganization or insolvency legislation.

1.115 “Prime Rate”

“Prime Rate” shall mean the rate announced by Wachovia Bank, National Association, or its successors, from time to time as its prime rate in effect for US Dollar denominated commercial loans, whether or not such announced rate is the best rate available at such bank.

1.116 “Provision for Taxes”

“Provision for Taxes” shall mean an amount equal to all taxes imposed on or measured by net income, whether federal, state, provincial, county or local, and whether foreign or domestic, that are paid or payable by any Person in respect of any period in accordance with GAAP.

1.117 “Real Property”

“Real Property” shall mean all now owned and hereafter acquired real property of US Borrowers, including leasehold interests, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located.

1.118 “Records”

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

1.119 “Reference Rate”

“Reference Rate” means, for any day, the rate of interest in effect for such day as publicly announced by a commercial bank selected by Tranche B Agent from time to time at such location as selected by Tranche B Agent as its “prime rate” (the “prime rate” being a rate (which is not necessarily the lowest of such rates) based upon various factors including such commercial bank’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate).

1.120 “Reference Rate Loans”

“Reference Rate Loans” shall mean any portion of a Tranche B Loan thereof on which interest is payable based on the Reference Rate in accordance with the terms hereof.

1.121 “Register”

“Register” shall have the meaning set forth in Section 11.4(e) hereof.

1.122 “Registered Tranche B Loan”

“Registered Tranche B Loan” shall have the meaning set forth in Section 2.3(e) hereof.

1.123 “Registered Tranche B Loan Note”

“Registered Tranche B Loan Note” shall have the meaning set forth in Section 2.3(e) hereof.

1.124 “Reportable Event”

“Reportable Event” shall mean any of the events set forth in Section 4043(c) of ERISA or the regulations issued thereunder, other than those events as to which the thirty (30) day notice period referred to in Section 4043(c) of ERISA have been waived.

1.125 “Required Lenders”

“Required Lenders” shall mean, at any time, (a) US Lenders who hold at least 50.1% of the commitment to make Revolving Loans or, if the commitment to make Revolving Loans has been terminated, the principal amount of the Revolving Loans and (b) US Lenders who hold at least 50.1% of the principal amount of the Tranche B Loan.

1.126 “Required Tranche B Lenders”

“Required Tranche B Lenders” shall mean, at any time, Tranche B Lenders who hold at least 50.1% of the principal amount of the Tranche B Loan.

1.127 “Revolving Lender”

“Revolving Lender” shall have the meaning set forth in the preamble to this Agreement.

1.128 “Revolving Loan Priority Collateral”

“Revolving Loan Priority Collateral” shall mean all of the undertaking, property and assets, present and future, of each Obligor set forth on Schedule 1.128 hereto including the Accounts and Inventory but excluding (a) the Mexican Obligor Collateral and (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral.

1.129 “Revolving Loans”

“Revolving Loans” shall mean the loans now or hereafter made by US Revolving Lender to or for the benefit of a US Borrower on a revolving basis (including advances, repayments and readvances) as set forth in Section 2.1 hereof.

1.130 “S&P”

“S&P” shall mean Standard & Poor’s Ratings Group, a division of McGraw-Hill, Inc., or any successor thereto.

1.131 “SMTC Corporation”

“SMTC Corporation” shall mean SMTC Corporation, a Delaware corporation.

1.132 “Solvent”

“Solvent” shall mean, at any time with respect to any Person, that at such time such Person (a) is able to pay its debts as they mature and has (and has a reasonable basis to believe it will continue to have) sufficient capital (and not unreasonably small capital) to carry on its business consistent with its practices as of the Closing Date, and (b) the assets and properties of such Person at a fair valuation (and including as assets for this purpose at a fair valuation all rights of subrogation, contribution or indemnification arising pursuant to any guarantees given by such Person) are greater than the indebtedness of such Person, and including subordinated and contingent liabilities computed at the amount which, such person has a reasonable basis to believe, represents an amount which can reasonably be expected to become an actual or matured liability (and including as to contingent liabilities arising pursuant to any guarantee the face amount of such liability as reduced to reflect the probability of it becoming a matured liability).

1.133 “Special Agent Advances”

“Special Agent Advances” shall have the meaning set forth in Section 12.10(a) hereof.

1.134 “Special Tranche B Agent Advances”

“Special Tranche B Agent Advances” shall have the meaning set forth in Section 12.10(b) hereof.

1.135 “Spot Rate”

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

1.136 “Subsidiaries”

“Subsidiaries” shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person.

1.137 “Total Debt”

“Total Debt” shall mean, at any time, the outstanding amount of the Obligations and all other obligations, liabilities and indebtedness of SMTC Corporation and its Subsidiaries, calculated on a consolidated basis and in accordance with GAAP, secured by valid and perfected first priority Liens on any property, assets or undertaking of such Persons.

1.138 “Total Excess Availability”

“Total Excess Availability” shall mean the US Dollar Amount, as determined by Agent calculated at any time, of the sum of Canadian Excess Availability and US Excess Availability.

1.139 “Total Leverage Ratio”

“Total Leverage Ratio” shall mean, at any time, the ratio of Total Debt to the rolling four (4) quarter EBITDA of SMTC Corporation and its Subsidiaries calculated on a consolidated basis and in accordance with GAAP.

1.140 “Tranche B Agent”

“Tranche B Agent” shall have the meaning set forth in the preamble to this Agreement.

1.141 “Tranche B Lenders”

“Tranche B Lenders” shall have the meaning set forth in the preamble to this Agreement.

1.142 “Tranche B Loan”

“Tranche B Loan” shall mean the term loan made by Tranche B Lenders to US Borrowers pursuant to Section 2.3 hereof.

1.143 “Tranche B Loan Action Default”

“Tranche B Loan Action Default” shall mean an Event of Default under Section 9.1(a) with respect to the failure to pay when due any of the Obligations, Sections 9.1(d), 9.1(f), 9.1(g), 9.1(h), 9.1(i), 9.1(j), 9.1(k), 9.1(l) or 9.1(p) or 9.1(a) with respect to the failure to perform any terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements (to the extent arising as a result of the failure to comply with Section 8.1(a) with respect to the failure to preserve, renew and keep in full force and effect its corporate existence, Sections 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.17, 8.18, 8.21, 8.22, 8.23, 8.24 or 8.25 hereof) in each case after giving effect to all applicable cure periods, if any.

1.144 “Tranche B Loan Action Default Notice”

“Tranche B Loan Action Default Notice” shall mean a written notice executed and delivered by Tranche B Agent to Agent of a Tranche B Loan Action Default and requesting that Agent demand payment of the Obligations and commence Enforcement Actions.

1.145 “Tranche B Loan Interest Rate”

“Tranche B Loan Interest Rate” shall mean: (a) the Adjusted Libor Rate for the applicable Interest Period plus the Applicable Margin for Libor Rate Loans; and (b) the Reference Rate plus the Applicable Margin for Reference Rate Loans; provided that “**Tranche B Loan Interest Rate**” shall mean an annual rate of interest of four (4%) percent per annum in excess (x) of the Adjusted Libor Rate for the applicable Interest Period plus the Applicable Margin for Libor Rate Loans or (y) the Reference Rate plus the Applicable Margin for Reference Rate Loans, as the case may be, at Tranche B Agent’s option, without notice, on all Obligations for the payment of money (i) for the period on and after the date of termination or non-renewal hereof until such time as Tranche B Agent has received full and final payment of all such Obligations and (ii) for the period from and after the date of the occurrence of an Event of Default so long as such Event of Default is continuing as determined by Tranche B Agent (notwithstanding entry of any judgment against any US Borrower).

1.146 “Tranche B Loan Fee Letter”

“Tranche B Loan Fee Letter” shall mean the fee letter dated the Closing Date between US Borrowers and Tranche B Agent, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.147 “Tranche B Loan Priority Collateral”

“Tranche B Loan Priority Collateral” shall mean all of the undertaking, property and assets, present and future, real and personal, of each Obligor including the Mexican Obligor Collateral other than the Revolving Loan Priority Collateral.

1.148 “Transferee”

“Transferee” shall have the meaning set forth in Section 2.5(a) hereof.

1.149 “UCC”

“UCC” shall mean the Uniform Commercial Code, as in effect in the State of Illinois and any successor statute, as in effect from time to time (except that the terms used herein which are defined in the Uniform Commercial Code as in effect in the State of Illinois on the Closing Date shall continue to have the same meaning notwithstanding any replacement or amendment of such statute except as Required Lenders may otherwise determine) provided that, if the attachment, perfection or priority of Agent’s security in respect of any Collateral is governed by the laws of any jurisdiction other than the US, UCC shall mean those other laws for the purposes hereof relating to attachment, perfection or priority.

1.150 “US”

“US” shall mean the United States of America.

1.151 “US Borrowers”

“US Borrowers” shall have the meaning set forth in the preamble to this Agreement and “US Borrower” shall mean any one of them individually.

1.152 “US Dollar Amount”

“US Dollar Amount” shall mean, at any time, (a) as to any amount denominated in US Dollars, the amount thereof at such time and (b) as to any amount denominated in any other currency, the Equivalent Amount in US Dollars.

1.153 “US Excess Availability”

“US Excess Availability” shall mean the US Dollar Amount, as determined by Agent, calculated at any time, equal to: (a) the lesser of: (i) the Borrowing Base subject to the sublimits and Availability Reserves established by Agent from time to time hereunder and (ii) the US Revolving Maximum Credit (less the Mark to Market Exposure of US Borrowers under all their Hedge Agreements) minus (b) the sum of: (i) the US Dollar Amount of all then outstanding and unpaid Revolving Loans and Letter of Credit Accommodations plus (ii) the aggregate amount of (x) all due but unpaid tax obligations as of such time and (y) all trade payables of US Borrowers that are past due for more than 60 days as of such time.

1.154 “US Lenders”

“US Lenders” shall mean, collectively, Revolving Lender and Tranche B Lenders.

1.155 “US Reference Bank”

“US Reference Bank” shall mean Wachovia Bank, National Association, or its successors and assigns, or such other bank as Agent may from time to time designate.

1.156 “US Revolving Maximum Credit”

“US Revolving Maximum Credit” shall mean US\$40,000,000 minus the outstanding Canadian Revolving Loans, Canadian Letter of Credit Accommodations and Canadian Mark to Market Exposure of Canadian Borrower under all its Canadian Hedge Agreements. For greater certainty, the aggregate of the US Revolving Maximum Credit and the Canadian Revolving Maximum Credit shall at no time exceed US\$40,000,000.

1.157 “US Tax Code”

“US Tax Code” shall mean the United States Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.158 “Value”

“Value” shall mean the US Dollar Amount, as determined by Agent, with respect to Inventory, of the lower of (a) cost computed on a first-in-first-out basis in accordance with GAAP or (b) market value.

1.159 “Wachovia”

“Wachovia” shall mean Wachovia Capital Finance Corporation (Central).

1.160 “WARN”

“WARN” shall have the meaning set forth in Section 7.17(b).

SECTION 2. CREDIT FACILITIES

2.1 Revolving Loans

(a) Subject to, and upon the terms and conditions contained herein, Revolving Lender agrees to make Revolving Loans to US Borrowers from time to time in amounts requested by a US Borrower; provided that the aggregate outstanding US Dollar Amount of Revolving Loans and Letter of Credit Accommodations to US Borrowers at any time do not exceed the lesser of: (i) the Borrowing Base at such time or (ii) the US Revolving Maximum Credit less the Mark to Market Exposure of US Borrowers under all their Hedge Agreements.

(b) Agent may, in its reasonable credit judgment, from time to time: (i) reduce the lending formula with respect to Eligible Accounts to the extent that Agent determines that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may be anticipated to increase in any material respect above historical levels or exceeds five (5%) percent; or (B) the general creditworthiness of account debtors has declined; or (ii) reduce the lending formula(s) with respect to Eligible Inventory to the extent that Agent determines that: (A) the number of days of the turnover of the Inventory for any period has changed in any material respect or (B) the liquidation value of the Eligible Inventory, or any category thereof, has decreased, or (C) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the lending formula(s), Agent may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory or in establishing Availability Reserves.

(c) Except in Agent’s discretion pursuant to Section 12.10 with respect to Special Agent Advances, the aggregate amount of the Revolving Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the US Revolving Maximum Credit less the Mark to Market Exposure of US Borrowers under all their Hedge Agreements. In the event that the outstanding amount of any component of the Revolving Loans, or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations, exceed the amounts available under the lending formulas, the sublimits for Letter of Credit Accommodations set forth in Section 2.2(d) or the US Revolving Maximum Credit (less the Mark to Market Exposure

of US Borrowers under all their Hedge Agreements), as applicable, such event shall not limit, waive or otherwise affect any rights of Revolving Lender or Agent in such circumstances or on any future occasions and US Borrowers shall (except as otherwise provided herein), immediately repay to Agent the entire amount of any such excess(es) for which payment is demanded.

2.2 Letter of Credit Accommodations

(a) Subject to, and upon the terms and conditions contained herein, at the request of a US Borrower, Agent, on behalf of Revolving Lender, agrees to provide or arrange for Letter of Credit Accommodations for the account of such US Borrower in US Dollars containing terms and conditions acceptable to Agent and the issuer thereof. Any payments made by Agent, on behalf of Revolving Lender, to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to such US Borrower pursuant to this Section 2. A US Borrower requesting such Letter of Credit Accommodation shall give Agent two (2) Business Days' prior written notice of such US Borrower's request for the issuance of a Letter of Credit Accommodation. Such notice shall be irrevocable and shall specify the original face amount of the Letter of Credit Accommodation requested, the effective date (which date shall be a Business Day and in no event shall be a date less than ten (10) days prior to the end of the then current term of this Agreement) of issuance of such requested Letter of Credit Accommodation, whether such Letter of Credit Accommodations may be drawn in a single or in partial draws, the date on which such requested Letter of Credit Accommodation is to expire (which date shall be a Business Day), the purpose for which such Letter of Credit Accommodation is to be issued, and the beneficiary of the requested Letter of Credit Accommodation. A US Borrower requesting the Letter of Credit Accommodation shall attach to such notice the proposed terms of the Letter of Credit Accommodation.

(b) In addition to any actual charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, US Borrowers shall pay to Agent, for the benefit of Revolving Lender, a letter of credit fee at a rate equal to one (1.0%) percent per annum on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that US Borrowers shall pay to Agent, for the benefit of Revolving Lender, such letter of credit fee, at Agent's option, without notice, at a rate equal to three (3%) percent per annum on such daily outstanding balance for: (i) the period from and after the date of termination or non-renewal hereof until Agent and Revolving Lender have received full and final payment of all Obligations (notwithstanding entry of a judgment against a US Borrower) and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Agent. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of US Borrowers to pay such fee shall survive the termination or non-renewal of this Agreement.

(c) In addition to being subject to the satisfaction of the applicable conditions precedent contained in Section 4 hereof and the other terms and conditions contained herein, no Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, each of the following conditions precedent have been satisfied in a manner satisfactory to Agent: (i) a US Borrower requesting such Letter of Credit Accommodation shall have delivered to the proposed issuer of such Letter of Credit

Accommodation at such times and in such manner as such proposed issuer may require, an application, in form and substance satisfactory to such proposed issuer, for the issuance of the Letter of Credit Accommodation and such other documents as may be required pursuant to the terms thereof, and the form and terms of the proposed Letter of Credit Accommodation shall be satisfactory to Agent and such proposed issuer, in each case of the foregoing, in the Agent's and/or proposed issuer's reasonable credit judgment, as applicable (ii) as of the date of issuance, no order of any court, arbitrator or other governmental authority shall purport by its terms to enjoin or restrain money center banks generally from issuing letters of credit of the type and in the amount of the proposed Letter of Credit Accommodation, and no law, rule or regulation applicable to money center banks generally and no request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over money center banks generally shall prohibit, or request that the proposed issuer of such Letter of Credit Accommodation refrain from, the issuance of letters of credit generally or the issuance of such Letters of Credit Accommodation, (iii) the Revolving Loans available to US Borrowers (subject to the US Revolving Maximum Credit (less the Mark to Market Exposure of US Borrowers under all their Hedge Agreements) and any Availability Reserves) are equal to or greater than: (A) if the proposed Letter of Credit Accommodation is for the purpose of purchasing Eligible Inventory and all negotiable documents of title with respect to such Eligible Inventory have been consigned to Agent or the issuer of the Letter of Credit Accommodation, the sum of (1) the percentage equal to one hundred (100%) percent minus the then applicable percentage (with reference to Sections 1.9 and 2.1(b) hereof) with respect to Eligible Inventory set forth in the definition of the term "Borrowing Base" multiplied by the Value of such Eligible Inventory, plus (2) freight, taxes, duty and other amounts which Agent estimates must be paid in connection with such Inventory upon arrival and for delivery to one of US Borrowers' locations for Eligible Inventory within the US and (B) if the proposed Letter of Credit Accommodation is for any other purpose or the documents of title are not consigned to the issuer in connection with a Letter of Credit Accommodation for the purpose of purchasing Inventory, an amount equal to one hundred (100%) percent of the face amount thereof and all other commitments and obligations made or incurred by Agent and Revolving Lender with respect thereto. Effective on the issuance of each Letter of Credit Accommodation, an Availability Reserve shall be established in the applicable amount set forth in Section 2.2(c)(iii)(A) or Section 2.2(c)(iii)(B).

(d) Except in Agent's discretion, (i) the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Agent and Revolving Lender in connection therewith, shall not at any time exceed US\$1,000,000. At any time an Event of Default exists or has occurred and is continuing, upon Agent's request, US Borrowers will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Agent for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise available to US Borrowers shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.

(e) Each US Borrower shall indemnify and hold Agent and Revolving Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which each may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation, unless the losses, claims,

damages, liabilities, costs and expenses suffered or incurred by Agent and/or Revolving Lender are due to the gross negligence or willful misconduct of Agent and/or Revolving Lender and/or its employees, officers, directors and authorized agents, as determined pursuant to a final non-appealable order of a court of competent jurisdiction. Each US Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed each US Borrower's agent. Each US Borrower assumes all risks for, and agrees to pay, all foreign, Federal, State and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Save and except to the extent that same arise or are due to the gross negligence or willful misconduct of Agent and/or Revolving Lender and/or its employees, officers, directors and authorized agents, as determined pursuant to a final non-appealable order of a court of competent jurisdiction, each US Borrower hereby releases and holds Agent and Revolving Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by US Borrowers, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.

(f) Each US Borrower hereby irrevocably authorizes and directs any issuer of a Letter of Credit Accommodation to name such US Borrower as the account party therein and to deliver to Agent all instruments, documents and other writings and property received by issuer pursuant to the Letter of Credit Accommodations and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit Accommodations or the applications therefor. Nothing contained herein shall be deemed or construed to grant US Borrowers any right or authority to pledge the credit of Agent and/or Revolving Lender in any manner. Agent and Revolving Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Revolving Lender unless Revolving Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Each US Borrower shall be bound by any interpretation made, in good faith by Agent, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of a US Borrower. Agent shall have the sole and exclusive right and authority to, and each US Borrower shall not: (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, and (ii) at all times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Agent may take such actions either in its own name or in any US Borrowers' names.

(g) Any rights, remedies, duties or obligations granted or undertaken by a US Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by such

US Borrower to Agent. Any duties or obligations undertaken by Agent and Revolving Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Agent and Revolving Lender in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall, except where Agent and Revolving Lender and/or its employees, officers, directors and authorized agents have been grossly negligent or have acted with willful misconduct, as determined pursuant to a final non-appealable order of a court of competent jurisdiction, be deemed to have been undertaken by US Borrowers to Agent and Revolving Lender and to apply in all respects to US Borrowers.

(h) In connection with Inventory purchased pursuant to Letter of Credit Accommodations, each US Borrower shall, at Agent's request (as determined or exercised in its reasonable credit judgment), instruct all suppliers, carriers, forwarders, customs brokers, warehouses or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a Lien to deliver them to Agent and/or subject to Agent's order, and if they shall come into a US Borrower's possession, to deliver them, upon Agent's request, to Agent in their original form. Each US Borrower shall also, at Agent's request (as determined or exercised in its reasonable credit judgment), designate Agent as the consignee on all bills of lading and other negotiable and non-negotiable documents.

2.3 Tranche B Loan

(a) Subject to and upon the terms and conditions contained herein, each Tranche B Lender agrees to make its Tranche B Loan to US Borrowers in US Dollars on the Closing Date. The aggregate of each Tranche B Lender's Tranche B Loan is US\$16,500,000.

(b) If a Priority Event has occurred and is continuing, all payments shall be applied in accordance with Section 5.4. In the absence of a continuing Priority Event, the following payments shall be made:

- (i) Repayment of the Tranche B Loan shall be made by US Borrowers to Agent, for the benefit of Tranche B Lenders, in quarterly installments of US\$767,857 commencing on October 1, 2007 and payable on the first Business Day of each fiscal quarter of SMTC Corporation thereafter with the final payment due in respect thereof (together with all outstanding interest thereon) payable on the Maturity Date.
- (ii) Fifty (50%) percent of Excess Cash Flow for each fiscal year of SMTC Corporation ending December 31, 2008 and thereafter, calculated using the audited consolidated financial statements of SMTC Corporation delivered pursuant to Section 8.6(a)(ii), shall be applied as a permanent repayment of the Tranche B Loan; provided that, the foregoing repayment shall not be made in the event that:
 - (A) Total Excess Availability would be less than US\$3,000,000 immediately after giving effect to such repayment or the average Total Excess Availability is less than US\$3,000,000 for the fifteen (15) days immediately preceding such repayment, provided that, at such time as Total Excess Availability would be equal to or greater than US\$3,000,000 immediately after giving effect to such

repayment and the average Total Excess Availability is equal to or greater than US\$3,000,000 for the fifteen (15) days immediately preceding such payment, SMTC Corporation shall make such payment and such payment shall be applied as a permanent repayment of the Tranche B Loan; provided further that if SMTC Corporation fails to make such repayment as a result of the failure to meet the foregoing Total Excess Availability Tests within thirty (30) days of it otherwise being due and payable the failure to make such payment may be deemed a “**Priority Event**” by Tranche B Agent, in its sole discretion; or

(B) a Priority Event shall have occurred and be continuing or would result from such repayment.

Such repayments of the Tranche B Loan shall be applied to installments under Section 2.3(b)(i) in the inverse order of maturity.

(iii) The proceeds of any Debt Offering or Equity Offering shall be applied as a permanent repayment of the Tranche B Loan provided a Priority Event shall not have occurred and be continuing or would result from such repayment. Such repayments of the Tranche B Loan shall be applied to installments under Section 2.3(b)(i) in the inverse order of maturity.

(iv) The proceeds of any sale of the Tranche B Loan Priority Collateral shall be applied as a permanent repayment of the Tranche B Loan; provided that:

(A) prior to a Priority Event, Agent shall apply such proceeds in accordance with this paragraph (iv) if Agent has received such proceeds and (a) on or after its receipt and prior to applying such proceeds to the Revolving Loans Agent has actual knowledge that such proceeds are proceeds of any sale of the Tranche B Loan Priority Collateral or (b) at any time after Agent has applied such proceeds to the Revolving Loans upon (x) Agent obtaining actual knowledge that it has received such proceeds of any sale of Tranche B Loan Priority Collateral and applied such proceeds to the Revolving Loans and (y) Total Excess Availability is equal to or greater than US\$1,000,000; and

(B) after a Priority Event, Agent shall apply such proceeds in accordance with this paragraph (iv) upon Agent’s receipt of such proceeds.

Such repayments of the Tranche B Loan shall be applied to installments under Section 2.3(b)(i) in the inverse order of maturity.

(v) The proceeds of any sale of Mexican Obligor Collateral (other than, in the absence of a continuing Priority Event, sales of Inventory of the Mexican Obligors and SMTC Mex Holdings, Inc. in the ordinary course of

business) shall be applied as a permanent repayment of the Tranche B Loan. Such repayments of the Tranche B Loan shall be applied to installments under Section 2.3(b)(i) in the inverse order of maturity.

- (vi) US Borrowers may make voluntary prepayments of the Tranche B Loan upon the satisfaction of each of the following conditions: (a) Total Excess Availability would not be less than US\$3,000,000 immediately after giving effect to such prepayment, (b) the average Total Excess Availability is not less than US\$3,000,000 for the fifteen (15) days immediately preceding such repayment and (c) as of the date of any such prepayment and after giving effect thereto, no Default or Event of Default shall exist or have occurred and be continuing or would result from such prepayment. Such repayments of the Tranche B Loan shall be applied to installments under Section 2.3(b) in the inverse order of maturity.
 - (vii) Any amounts repaid in respect of the Tranche B Loan may not be reborrowed and shall be applied to permanently reduce the aggregate amount of the Tranche B Loan.
- (c) Tranche B Loan Interest:
- (i) US Borrowers shall pay to Agent, for the benefit of Tranche B Lenders, interest on the outstanding principal amount of the Tranche B Loan at the Tranche B Loan Interest Rate. All interest accruing with respect to the Tranche B Loan hereunder on and after the Maturity Date or during the occurrence of any Event of Default or termination hereof shall be payable on demand in accordance with Section 5.4 hereof.
 - (ii) All interest charges related to the Tranche B Loan shall (A) be calculated based upon the applicable Tranche B Loan Interest Rate, (B) be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed, (C) be paid monthly in arrears to Agent, for the benefit of Tranche B Lenders, on the first Business Day of each calendar month, or at Agent's option, charged to US Borrower's loan account(s) maintained by Agent as of the first Business Day of each calendar month and (D) accrue from the Closing Date.
 - (iii) In no event shall charges constituting interest payable by US Borrowers to Agent, for the benefit of Tranche B Lenders, exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any such part or provision of this Agreement or any of the other Financing Agreements is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.
 - (iv) To the extent that the Canadian Tranche B Lender buys a Junior Participation in Revolving Loans pursuant to the Canadian Loan Agreement, without any further action, that portion of Revolving Loans shall bear interest at the rate of interest for the Tranche B Loan.

(d) US Borrowers agree to pay Agent, for the benefit of Tranche B Lenders, the fees, including any prepayment premium, and other amounts set forth in the Tranche B Loan Fee Letter in the amounts and at the time specified therein.

(e) Agent, on behalf of US Borrowers, agrees to record the Tranche B Loan on the Register referred to in Section 11.4(e) hereof. The Tranche B Loan recorded on the Register (the “**Registered Tranche B Loan**”) may not be evidenced by a promissory note other than a Registered Tranche B Loan Note (as defined below). Upon the registration of such Tranche B Loan, any promissory note (other than a Registered Tranche B Loan Note) evidencing the same shall be null and void and shall be returned to US Borrowers. US Borrowers agree, at the request of a Tranche B Lender, to execute and deliver to such Tranche B Lender a promissory note in registered form reasonably acceptable to such Tranche B Lender to evidence the Tranche B Loan (that is, containing registered note language) and registered as provided in Section 11.4(e) hereof (a “**Registered Tranche B Loan Note**”), payable to such Tranche B Lender and otherwise duly completed. Once recorded on the Register, the Obligations evidenced by such Registered Tranche B Loan Note may not be removed from the Register so long as it remains outstanding and a Registered Tranche B Loan Note may not be exchanged for a promissory note that is not a Registered Tranche B Loan Note.

2.4 Availability Reserves

All Revolving Loans otherwise available to US Borrowers pursuant to the lending formulas are subject to the US Revolving Maximum Credit and other applicable limits hereunder and shall be subject to Agent’s continuing right to apply, establish and revise Availability Reserves.

2.5 Taxes

(a) Any and all payments by US Borrowers and any Obligor hereunder or under any other Financing Agreement shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties, additions to tax or other liabilities with respect thereto, excluding taxes that are imposed on overall net income of Agent, Tranche B Agent and any US Lender (or any transferee or assignee thereof, including a participant holder (each a “**Transferee**”)) (and franchise taxes imposed in lieu thereof) by the state or jurisdiction under the laws of which Agent, Tranche B Agent and any US Lender (or Transferee) is organized or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, interest, penalties, additions to tax and liabilities in respect of payments hereunder or under the other Financing Agreements being hereinafter referred to as “**Taxes**”). If US Borrowers or any Obligor shall be required by law to deduct or pay any Taxes from or in respect of any sum payable hereunder or under any other Financing Agreements, (i) the sum payable by such Person shall be increased as may be necessary so that after such Person has made all required deductions and payments (including deductions and payments applicable to additional sums payable under this Section 2.5) such Agent, Tranche B Agent, US Lender or Transferee receives an amount equal to the sum it would have received had no such deductions or payments been made, (ii) such Person shall make all such required deductions and (iii) such Person shall pay the full amount required to be deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, and without limiting the provisions of Section 2.5(a) above, US Borrowers and each Obligor shall timely pay any present or future stamp, documentary, excise, property, intangible, mortgage recording or similar taxes, charges or levies that arise from any payment made by such Person hereunder or under any other Financing Agreements or from the execution, delivery or registration or recordation of, performance under, or otherwise with respect to, this Agreement or the other Financing Agreements (hereinafter referred to as “**Other Taxes**”) to the relevant taxation authority or other authority in accordance with applicable law.

(c) US Borrowers and each Obligor shall indemnify Agent, Tranche B Agent, each US Lender and each Transferee for and hold it harmless against the full amount of any Taxes or Other Taxes, and for the full amount of taxes of any kind imposed or asserted by any jurisdiction on amounts payable under this Section 2.5, imposed on or paid by such Person and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes, or taxes were correctly or legally imposed or asserted by the relevant taxing authority. This indemnification shall be made within thirty (30) days from the date Agent, Tranche B Agent, a US Lender or any Transferee makes written demand therefor. A certificate as to the amount of such liability or payment delivered by Agent, Tranche B Agent, a US Lender or any Transferee to US Borrowers or any Obligor shall be conclusive absent manifest error.

(d) Within thirty (30) days after the date of any payment of Taxes or Other Taxes, US Borrowers or the applicable Obligor, as the case may be, shall furnish to applicable Agent, Tranche B Agent, US Lender or Transferee, at its address referred to in Section 11.2, the original or a certified copy of a receipt evidencing such payment issued by the applicable taxing authority, to the extent such a receipt is issued therefor, or other written proof of payment thereof that is reasonably satisfactory to such Agent, Tranche B Agent, US Lender or Transferee.

(e) The provisions of this Section 2.5 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.6 Hedge Agreements

(a) Procedure. US Borrowers may enter into Hedge Agreements from time to time over the telephone with representatives of Revolving Lender’s trading unit (or that of its Affiliates), the terms of which shall be confirmed in writing in accordance with the procedures established by the trading unit of Revolving Lender or its Affiliates, as applicable.

(b) Terms and Conditions. Each Hedge Agreement is governed by the terms and conditions set out in the confirmation forwarded by Revolving Lender to US Borrowers on entering into the Hedge Agreement and any applicable ISDA agreement. If there is a conflict between the terms and conditions set out in the confirmation or ISDA agreement and this Agreement with respect to the terms of the hedge, the confirmation or ISDA agreement shall govern unless otherwise expressly provided herein.

(c) Maturity. Hedge Agreements may, at the discretion of Revolving Lender, have contract periods extending beyond the Maturity Date.

(d) Uncommitted. Revolving Lender and its Affiliates may, at their sole discretion, decline to enter into any Hedge Agreement available to US Borrowers at any time.

(e) Hedging. Hedge Agreements may be entered into for hedging purposes only and not for speculative purposes.

(f) Limitations.

- (i) Hedge Agreements may not be entered into at any time when the aggregate Mark to Market Exposure of all existing Hedge Agreements of US Borrowers, in the aggregate, exceeds US\$3,000,000. If, at any time, the Mark to Market Exposure of all Hedge Agreements of US Borrowers, in the aggregate, exceeds US\$3,000,000, US Borrowers shall take such measures as may be necessary to reduce the Mark to Market Exposure by the amount of such excess within five (5) Business Days.
- (ii) The notional amount of any and all Hedge Agreements of US Borrowers shall not exceed US\$50,000,000 in the aggregate.

(g) Notice. Each US Borrower shall provide Agent and Tranche B Agent with written notice forthwith upon entering into a Hedge Agreement. Such notice shall specify Revolving Lender (or Affiliate of Revolving Lender) and the aggregate Mark to Market Exposure immediately prior to entering into such Hedge Agreement. Each US Borrower shall advise Agent and Tranche B Agent in writing of the aggregate Mark to Market Exposure of its outstanding Hedge Agreements as at the end of each month by the next following Business Day, and such other times as Agent or Tranche B Agent shall request. For greater certainty, Revolving Lender (or each Affiliate of Revolving Lender) that makes a Hedge Agreement available to US Borrowers agrees to provide within five (5) Business Days of a written request therefor by US Borrowers, a determination of the Mark to Market Exposure of each Hedge Agreement that Revolving Lender (or such Affiliate of Revolving Lender) has with US Borrowers.

SECTION 3. INTEREST AND FEES

3.1 Interest

(a) US Borrowers shall pay to Agent, for the benefit of Revolving Lender, interest on the outstanding principal amount of the non-contingent Obligations (other than the Tranche B Loan) at the Interest Rate.

(b) Interest shall be payable by US Borrowers to Agent, for the benefit of Revolving Lender, monthly in arrears not later than the first Business Day of each calendar month and shall be calculated on the basis of a three hundred and sixty (360) day year and actual days elapsed in the case of Revolving Loans. The Interest Rate shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such rate is announced. The increase or decrease shall be based on the Prime Rate in effect on the last day of the month in which any such change occurs. All interest accruing hereunder on and after an Event of Default or termination or non-renewal hereof shall be payable on demand. In no event shall charges constituting interest payable by US Borrowers to US Lenders exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

(c) A certificate of an authorized signing officer of Agent or Tranche B Agent, as the case may be, as to each amount and/or each rate of interest payable hereunder from time to time shall be conclusive evidence of such amount and of such rate, absent manifest error.

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

(e) Upon the occurrence of a Default or an Event of Default that is continuing, or if US Borrowers repay or prepay a Libor Rate Loan on a day other than the last day of the applicable Interest Period, US Borrowers shall indemnify Tranche B Agent and/or Tranche B Lenders for any loss or expense suffered or incurred by Tranche B Agent and/or Tranche B Lenders including any loss of profit or expenses Tranche B Agent and/or Tranche B Lenders incur by reason of the liquidation or redeployment of deposits or other funds acquired by it to effect or maintain any and all Libor Rate Loans, or any interest or other charges payable to lenders of funds borrowed by Tranche B Agent and/or Tranche B Lenders in order to maintain such Libor Rate Loans, together with any other charges, costs or expenses incurred by Tranche B Agent and/or Tranche B Lenders relative thereto.

(f) US Borrowers may from time to time request Libor Rate Loans or that any existing Libor Rate Loans continue for an additional Interest Period. Such request from US Borrowers shall specify the amount of the Libor Rate Loans or the amount of the Libor Rate Loans to be continued (subject to the limits set forth below). Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Tranche B Agent of such a request from US Borrowers, such Libor Rate Loans shall be made or such Libor Rate Loans shall continue, as applicable; provided, that, (i) no party hereto shall have sent any notice of termination of this Agreement; (ii) US Borrowers shall have complied with such customary procedures as are generally established by Tranche B Agent for all customers and specified by Tranche B Agent to US Borrowers from time to time for requests by US Borrowers for Libor Rate Loans; (iii) no more than one (1) Interest Period (for all outstanding Libor Rate Loans) may be in effect at any one time; (iv) the aggregate amount of the Libor Rate Loans must be in an amount not less than US\$1,000,000 or an integral multiple of US\$1,000,000 in excess thereof; and (v) Tranche B Agent shall have determined that the Interest Period or Adjusted Libor Rate is available to Tranche B Agent and can be readily determined as of the date of the request for such Libor Rate Loan by US Borrowers. Any request by US Borrowers for Libor Rate Loans or to continue Libor Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Tranche B Lenders and/or Tranche B Agent shall not be required to purchase US Dollar deposits in the London interbank market to fund any Libor Rate Loans, but the provisions hereof shall be deemed to apply as if Tranche B Lenders and/or Tranche B Agent had purchased such deposits to fund the Libor Rate Loans. Tranche B Agent shall advise Agent of the Tranche B Loan Interest Rate payable by US Borrowers hereunder.

(g) To the extent that the Canadian Revolving Lender buys a Junior Participation in the Tranche B Loan pursuant to the Canadian Loan Agreement, without any further action, that portion of Tranche B Loans shall bear interest at the rate of interest for the Revolving Loan.

3.2 Intentionally Deleted.

3.3 Intentionally Deleted.

3.4 Intentionally Deleted.

3.5 Intentionally Deleted.

3.6 Increased Costs and Changes in Law

(a) If, after the Closing Date, either: (i) any change in, or in the interpretation of, any law or regulation is introduced, including with respect to reserve requirements, applicable to a US Lender or any banking or financial institution from whom US Lender borrows funds or obtains credit (a “**Funding Bank**”); or (ii) a Funding Bank or US Lender complies with any future guideline or request from any central bank or other Governmental Authority; or (iii) a Funding Bank or US Lender determines that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof has or would have the effect described below, or a Funding Bank or US Lender complies with any request or directive regarding capital adequacy (whether or not having the force of law where customarily complied with by responsible financial institutions) of any such authority, central bank or comparable agency, and in the case of any event set forth in this clause (iii), such adoption, change or compliance has, or would have, the direct or indirect effect of reducing the rate of return on a US Lender’s capital as a consequence of its obligations hereunder to a level below that which such US Lender could have achieved but for such adoption, change or compliance (taking into consideration the Funding Bank’s or such US Lender’s policies with respect to capital adequacy) by an amount deemed by such US Lender to be material, and the result of any of the foregoing events described in clauses (i), (ii) or (iii) is, or results in, an increase in the cost to such US Lender of funding or maintaining the Loans and/or Letter of Credit Accommodations, then US Borrowers shall from time to time upon demand by such US Lender pay to such US Lender additional amounts sufficient to indemnify such US Lender against such increased cost on an after-tax basis (after taking into account applicable deductions and credits in respect of the amount indemnified). A certificate as to the amount of such increased cost shall be submitted to US Borrowers by Agent and shall be conclusive, absent manifest error.

(b) If, prior to the first day of any Interest Period: (i) Tranche B Agent shall have determined (which determination shall be conclusive and binding upon US Borrowers) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Adjusted Libor Rate for such Interest Period; (ii) Tranche B Agent has determined that the Adjusted Libor Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to Tranche B Agent and/or Tranche B Lenders of making or maintaining Libor Rate Loans during such Interest Period; or (iii) US Dollar deposits in the principal amounts of the Libor Rate Loans to which such Interest Period is to be applicable

are not generally available in the London interbank market, Tranche B Agent shall give notice thereof to US Borrowers as soon as practicable thereafter (which notice shall be withdrawn whenever such circumstances no longer exist). If such notice is given: (A) any Libor Rate Loans requested to be made on the first day of such Interest Period shall be made as Reference Rate Loans; (B) any Reference Rate Loans that were to have been converted on the first day of such Interest Period to or continue as Libor Rate Loans shall be converted to or continued as Reference Rate Loans; and (C) each outstanding Libor Rate Loan shall be converted, on the last day of the then-current Interest Period thereof, to Reference Rate Loans. Until such notice has been withdrawn by Tranche B Agent, no further Libor Rate Loans shall be made or continued as such, nor shall a US Borrower have the right to convert Reference Rate Loans to Libor Rate Loans. Upon such notice being withdrawn by Tranche B Agent, US Borrowers may convert Reference Rate Loans to Libor Rate Loans.

(c) Notwithstanding any other provision herein, if the adoption of, or any change in, any law, treaty, rule or regulation or final, non-appealable determination of an arbitrator or a court or other Governmental Authority or in the interpretation or application thereof occurring after the Closing Date shall make it unlawful for Tranche B Agent or Tranche B Lenders to make or maintain Libor Rate Loans as contemplated by this Agreement: (i) Tranche B Agent shall promptly give written notice of such circumstances to US Borrowers (which notice shall be withdrawn whenever such circumstances no longer exist); (ii) the commitment of Tranche B Agent and/or Tranche B Lenders hereunder to make Libor Rate Loans, continue Libor Rate Loans and convert Reference Rate Loans to Libor Rate Loans shall forthwith be cancelled and, until such time as it shall no longer be unlawful for Tranche B Agent and/or Tranche B Lenders to make or maintain Libor Rate Loans, Tranche B Agent and/or Tranche B Lenders shall then only have a commitment to make Reference Rate Loans when a Libor Rate Loan is requested; and (iii) the Tranche B Loan then outstanding as Libor Rate Loans, if any, shall be converted automatically to Reference Rate Loans on the respective last days of the then current Interest Periods or within such earlier period as required by law. If any such conversion of a Libor Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, US Borrowers shall pay to Agent, for the benefit of Tranche B Lenders, such amounts, if any, as may be required pursuant to Section 3.6(d) below.

(d) US Borrowers shall indemnify Tranche B Agent and Tranche B Lenders and shall hold Tranche B Agent and Tranche B Lender harmless from any loss or expense which Tranche B Agent or Tranche B Lenders may sustain or incur as a consequence of: (i) default by US Borrowers in making a borrowing of, conversion into or extension of Libor Rate Loans after US Borrowers have given a notice requesting the same in accordance with the provisions of this Agreement; or (ii) the making of a prepayment of any Libor Rate Loans on a day which is not the last day of an Interest Period with respect thereto; or (iii) any conversion of a Libor Rate Loan into a Reference Rate Loan pursuant to the terms hereof on a day which is not the last day of the then current Interest Period with respect thereto. With respect to Libor Rate Loans such indemnification may include an amount equal to the greater of: (i) the excess, if any, of (1) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or extended, for the period from the date of such prepayment or of such failure to borrow, convert or extend to the last day of the applicable Interest Period (or, in the case of a failure to borrow, convert or extend, the Interest Period that would have commenced on the date of such failure), in each case at the applicable rate of interest for such Libor Rate Loans provided for herein over (2) the amount of interest (as determined by Tranche B Agent) which would have

accrued to Tranche B Lenders on such amount by placing such amount on deposit for a comparable period with leading banks in the London interbank market; and (ii) an amount equal to the interest that would have been payable if the Libor Rate Loans had been a Reference Rate Loan. This covenant shall survive the termination or non-renewal of this Agreement and the payment of the Obligations.

SECTION 4. CONDITIONS PRECEDENT

4.1 Conditions Precedent to Amendment and Restatement

This Agreement shall become effective as of the Business Day when each of the following conditions precedent shall have been satisfied in a manner satisfactory to Agent and Tranche B Agent:

(a) Agent and Tranche B Agent shall have received evidence (including any inter-creditor arrangements, subordinations or releases of any other Liens in the Collateral required by US Lenders, UCC termination statements for all UCC financing statements previously filed by any secured lender, as secured party, against a US Borrower or Obligor, as debtor, and satisfactions and discharges of any mortgages, deeds of trust or deeds to secure debt by any US Borrower or Obligor in favor of a secured lender in form acceptable for recording with the appropriate governmental authority), in form and substance satisfactory to US Lenders, that Agent has valid perfected and first priority Liens in and upon the Collateral and any other property which is intended to be security for the Obligations or the liability of any Obligor in respect thereof, subject only to the Liens permitted herein or in the other Financing Agreements and Canadian Financing Agreements;

(b) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to US Lenders, and Agent shall have received all information and copies of all documents, including records of requisite corporate action and proceedings which US Lenders may have requested in connection therewith, such documents where requested by US Lenders or its counsel to be certified by appropriate corporate officers or governmental authorities (and including a copy of the certificate of incorporation of each US Borrower and Obligor certified by the Secretary of State (or equivalent governmental authority) which shall set forth the same complete corporate name of such US Borrower or Obligor and such document as shall set forth the organizational identification number of each US Borrower or Obligor, if one is issued in its jurisdiction of incorporation);

(c) no material adverse change shall have occurred in the assets, business or prospects of US Borrowers or any Obligors since December 31, 2006 and no change or event shall have occurred which would impair the ability of US Borrowers or any Obligor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of US Lenders, Tranche B Agent and Agent to enforce the Obligations or realize upon the Collateral;

(d) US Lenders shall have completed a field review of the Records and such other information with respect to the Collateral as US Lenders may require to determine the amount of Revolving Loans available to US Borrowers, the results of which shall be satisfactory to Agent, not more than three (3) Business Days prior to the Closing Date;

(e) Agent shall have received, in form and substance satisfactory to US Lenders, all consents, waivers, acknowledgments and other agreements from third persons which US Lenders may deem necessary or desirable in order to permit, protect and perfect its Liens in and upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including notice from funding agent under each Pension Plan (Section 8.15(a)), Billing Authorization Letters re: Accounts, No-Offset Agreements re: Accounts, Inventory Purchase Agreements, acknowledgements by lessors, mortgagees and warehousemen of Agent's Liens in the Collateral, waivers by such persons of any Liens or other claims by such persons to the Collateral and agreements permitting US Lenders access to, and the right to remain on, the premises to exercise its rights and remedies and otherwise deal with the Collateral;

(f) Agent and Tranche B Agent shall have received evidence of insurance and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to US Lenders, and certificates of insurance policies and/or endorsements naming Agent as first loss payee and an additional insured;

(g) Agent and Tranche B Agent shall have received, in form and substance satisfactory to US Lenders, acting reasonably, such opinion letters of counsel to US Borrowers and the Obligors with respect to the Financing Agreements and such other matters as Agent may request, acting reasonably;

(h) the other Financing Agreements and the Canadian Financing Agreements, and all instruments and documents hereunder and thereunder including those listed on the closing agenda with respect to this Agreement and the Canadian Loan Agreement shall have been duly executed and originals or copies, as applicable, delivered to Agent and Tranche B Agent and be in form and substance satisfactory to US Lenders;

(i) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to US Lenders, that all security and guarantees granted or issued by SMTC Corporation and its Subsidiaries in favour of existing lenders thereto and all Liens with respect thereto (other than such security, guarantees and Liens that Agent shall consent to in writing prior to the Closing Date) have been released or discharged or an undertaking, in form and substance satisfactory to US Lenders, shall have been executed and delivered by such existing lenders in favour of Agent agreeing to, among other things, release and discharge such security, guarantees and Liens within a reasonable time following the Closing Date;

(j) the Total Excess Availability, as determined by Agent, as of the Closing Date, shall not be less than US\$3,000,000 after giving effect to (i) the initial Loans, the Letter of Credit Accommodations, if any, and Canadian Advances made or to be made in connection with the initial transactions hereunder and under the Canadian Financing Agreements, (ii) payment of all fees and expenses in connection with the transactions under the Financing Agreements and Canadian Financing Agreements and (iii) provided that accounts payable, taxes and other obligations of US Borrowers and Obligors are paid current in accordance with historical business practices of US Borrowers and Obligors;

(k) each of the conditions precedent in the Canadian Loan Agreement shall have been satisfied;

(l) Agent and Tranche B Agent shall have received, in form and substance satisfactory to US Lenders, Deposit Account Control Agreements regarding Blocked Accounts by and among Agent, applicable US Borrower and each bank where such US Borrower has a deposit account, in each case, duly authorized, executed and delivered by such bank and such US Borrower;

(m) Agent and Tranche B Agent shall have received and reviewed lien, judgment and other applicable search results for the jurisdiction of incorporation of each US Borrower, the jurisdiction of the chief executive office of each US Borrower and all jurisdictions in which assets of US Borrowers and Obligors are located, which search results shall be in form and substance satisfactory to US Lenders;

(n) Agent shall have received originals of the share certificates representing all of the issued and outstanding shares of each US Borrower and Obligor, as applicable, in each case together with stock powers duly executed in blank with respect thereto;

(o) Tranche B Agent shall have completed its due diligence (including the review of ERISA, regulatory, environmental, intellectual property, litigation, accounting, tax, licensing, certification, permit and labor matters, cash management systems and material contracts of Obligors) with results satisfactory to Tranche B Agent and its counsel, in their sole discretion;

(p) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to US Lenders, that each US Borrower and Obligor is in good standing in its respective jurisdiction of organization and is duly qualified to do business in each other jurisdiction where its ownership or lease or property or the conduct of its business requires such qualification;

(q) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to US Lenders, that all required governmental, shareholder and third party approvals, consents, licenses, franchises and permits in connection with this Agreement and the transactions contemplated hereby and the operation by US Borrowers and Obligors of their respective businesses have been obtained and remain in full force and effect;

(r) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to US Lenders, that there exists no claim, action, suit, investigation, litigation or proceeding, pending or threatened, in any court or before any arbitrator or governmental instrumentality which relates to this Agreement, the other Financing Agreements or the Canadian Financing Agreements or which, in the opinion of US Lenders, has any reasonable likelihood of having a material adverse effect on (i) the condition (financial or otherwise), operations, performance, properties, assets, liabilities, business or prospects of any US Borrower or Obligor, (ii) the ability of any US Borrower or Obligor to perform its obligations under the Financing Agreements or (iii) the ability of Agent or US Lenders to enforce the Financing Agreements;

(s) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to US Lenders, that the existing subordinated loan facilities have been terminated and all Liens thereunder have or will be released and SMTC Corporation and its Subsidiaries has no indebtedness other than indebtedness permitted pursuant to the Financing Agreements, Canadian Financing Agreements or consented to in writing by US Lenders;

(t) Agent and Tranche B Agent shall have received evidence that US Borrowers and Obligors have paid to Agent and US Lenders all fees and expenses then owing to such persons including all audit, legal, search, title, documentation and filing fees; and

(u) Agent and Tranche B Agent shall have received projected financial statements of US Borrowers for a period of not less than three (3) years, with such projections for years 1 and 2 prepared on a monthly basis and thereafter prepared on an annual basis and a sales backlog report as of a date not more than thirty (30) days prior to the Closing Date, all in form and substance satisfactory to US Lenders.

4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations

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

(a) all representations and warranties contained herein and in the other Financing Agreements and Canadian Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto;

(b) no Event of Default (as defined hereunder and as defined under the Canadian Loan Agreement) and no Default (as defined hereunder and as defined under the Canadian Loan Agreement), shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and

(c) no law, regulation, order, judgment or decree of any governmental authority shall exist, and no action, suit, investigation, litigation or proceeding shall be pending or threatened in any court or before any arbitrator or governmental authority, which purports to enjoin, prohibit, restrain or otherwise affect (A) the making of the Loans or providing the Letter of Credit Accommodations, or (B) the consummation of the transactions contemplated pursuant to the terms hereof or the other Financing Agreements or Canadian Financing Agreements.

SECTION 5. COLLECTION AND ADMINISTRATION

5.1 US Borrowers' Loan Account

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

5.2 Statements

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

5.3 Collection of Accounts

(a) Each US Borrower shall establish and maintain, at its expense, blocked accounts or lockboxes and related blocked accounts (in either case, "**Blocked Accounts**") as Required Lenders may specify, and Agent may establish and maintain bank accounts of Agent ("**Payment Accounts**") in each case with such banks as are acceptable to Agent, into which Blocked Accounts US Borrowers shall promptly deposit, and direct their accounts debtors that remit payments by electronic funds transfers to directly remit, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form in which such payments are made or received, whether by cash, cheque or other manner. The parties hereto agree that:

- (i) each US Borrower has access to all funds in its bank accounts including the Blocked Accounts until a Default or Event of Default exists or has occurred and is continuing; and
- (ii) as of the date of this Agreement, each US Borrower is freely choosing to deposit, and direct its account debtors that remit payments by electronic funds transfer to directly remit, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral into the Blocked Accounts.

The banks at which the Blocked Accounts are established, US Borrowers and Agent shall enter into "springing" deposit account control agreements (each, a "**Deposit Account Control Agreement**"), in form and substance satisfactory to Required Lenders, acting reasonably, providing that:

- (i) the depository bank has no Lien upon, or right to set-off against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein; and
- (ii) at any time a Default or Event of Default exists or has occurred and is continuing, Agent may (and at the direction of Tranche B Agent shall) provide notice to the depository bank (such notice being the "**Full Control**")

Notice”) to wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into the Blocked Accounts to the Payment Accounts.

Each US Borrower agrees that, at any time a Default or Event of Default exists or has occurred and is continuing and a Full Control Notice has been delivered by Agent to the depository bank, all payments made to such Blocked Accounts or Payment Accounts or other funds received and collected by Agent, whether on the Accounts or as proceeds of Inventory or other Collateral or otherwise, shall be the property of Agent, for the benefit of US Lenders, and shall be applied by Agent to the Obligations in accordance with Section 5.4.

(b) For purposes of calculating the amount of the Revolving Loans available to US Borrowers, such payments referred to in Section 5.3(a) above will be applied (conditional upon final collection) to the Obligations in accordance with Section 5.4 on the Business Day of receipt by Agent of immediately available funds in the Payment Account provided such payments and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time and within sufficient time to credit applicable US Borrower’s loan account on such day, and if not, then on the next Business Day. For the purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final collection) to the Obligations on the date of receipt of immediately available funds by Agent in the Payment Accounts provided such payments or other funds and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time and within sufficient time to credit applicable US Borrower’s loan account on such day, and if not, then on the next Business Day. If Agent receives funds in a Payment Account at any time at which no Obligations are payable pursuant to Section 5.4 or in excess of such outstanding Obligations payable pursuant to Section 5.4, Agent shall transfer such funds to applicable US Borrower at such account as such US Borrower may direct, provided that such US Borrower shall, at Agent’s request, deposit such funds to an account maintained at the bank at which the Payment Accounts are maintained and, prior to such transfer, shall execute and deliver to Agent a cash collateral agreement in form and substance satisfactory to Agent providing to Agent a first priority Lien over such account.

(c) At any time a Default or Event of Default exists or has occurred and is continuing, US Borrowers and all of their affiliates, Subsidiaries, shareholders, directors, employees or agents shall, acting as trustee for Agent, receive, as the property of Agent, any monies, checks, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts or the Payment Accounts, or remit the same or cause the same to be remitted, in kind, to Agent. In no event, after a Default or Event of Default exists or has occurred and is continuing, shall the same be commingled with a US Borrower’s own funds. Each US Borrower agrees to reimburse Agent on demand for any amounts owed or paid to any bank at which a Blocked Account or Payment Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts or the Payment Accounts arising out of Agents’ payments to or indemnification of such bank or person. The obligation of each US Borrower to reimburse Agent for such amounts pursuant to this Section 5.3 shall survive the termination or non-renewal of this Agreement.

5.4 Payments

(a) **Non-Priority Event.** Agent shall apply payments received or collected from US Borrowers or for the account of US Borrowers (including the monetary proceeds of collections or of realization upon any Collateral other than with respect to the Tranche B Loan Priority Collateral but including, in the absence of a continuing Priority Event, collections with respect to proceeds of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business) as follows:

- (i) first, to the payment in full of any fees, indemnities and expense reimbursements due to US Lenders, Agent and Tranche B Agent;
- (ii) second, to the payment in full of interest and letter of credit fees due in respect of any Loans, Special Agent Advances, Special Tranche B Agent Advances and Letter of Credit Accommodations;
- (iii) third, to the payment or prepayment in full of principal in respect of Special Agent Advances and Special Tranche B Agent Advances;
- (iv) fourth, to the payment or prepayment in full of principal due in respect of the Revolving Loans, Letter of Credit Accommodations and the amount of the Mark to Market Exposure of any Hedge Agreement of US Borrowers not exceeding US\$3,000,000 in the aggregate to the extent that an Availability Reserve has been taken with respect to such Mark to Market Exposure;
- (v) fifth, to the payment in full of principal due in respect of the Tranche B Loan; and
- (vi) sixth, to pay or prepay any other Obligations (including other Hedging Liabilities) then due including holding as cash collateral in the amount equal to one hundred ten (110%) percent of the amount of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;

provided that, in each instance set forth above in Section 5.4(a) so long as no Priority Event has occurred and is continuing, this Section 5.4(a) shall not be deemed to apply to any payment by US Borrowers specified by US Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under and in accordance with the provisions of this Agreement.

(b) **Priority Event.**

- (i) **Revolving Loan Priority Collateral:** Notwithstanding anything to the contrary contained in Section 5.4(a) above, at any time on and after a Priority Event and for so long as the same is continuing, Agent shall apply payments received or collected from US Borrowers or for the account of US Borrowers arising from monetary proceeds of collections or of realization upon the Revolving Loan Priority Collateral including any

Account of SMTC Mex Holdings, Inc. arising from the sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of business before the occurrence of a Priority Event as follows:

- (A) first, in the event of Agent (or its assignee, designee, affiliates or agents) commencing and/or pursuing an Enforcement Action, to the payment in full of all costs and expenses of such Persons with respect to such Enforcement Action, the collection of the Loans and disposition of and realization upon the Collateral including the Mexican Obligor Collateral;
- (B) second, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Agent and Revolving Lender;
- (C) third, to the *pro rata* payment in full of interest and letter of credit fees due in respect of any Revolving Loans, Letter of Credit Accommodations, Special Agent Advances and Special Tranche B Agent Advances;
- (D) fourth, to the *pro rata* payment in full of principal due in respect of Special Agent Advances and Special Tranche B Agent Advances;
- (E) fifth, to the *pro rata* payment in full of principal due in respect of any Revolving Loans, Letter of Credit Accommodations and the amount of the Mark to Market Exposure of any Hedge Agreement of US Borrowers not exceeding US\$3,000,000 in the aggregate to the extent that an Availability Reserve has been taken with respect to such Mark to Market Exposure;
- (F) sixth, to pay or prepay *pro rata* any other Obligations (other than with respect to the Tranche B Loan) whether or not then due, in such order and manner as Agent determines including holding cash collateral in the amount equal to one hundred ten (110%) percent of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;
- (G) seventh, to the payment in full of any fees, indemnities and expense reimbursements due in respect of the Tranche B Loan;
- (H) eighth, to the payment in full of interest due in respect of the Tranche B Loan;
- (I) ninth, to the payment in full of principal due in respect of the Tranche B Loan;
- (J) tenth, to pay or prepay *pro rata* any other Obligations (other than with respect to Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities) whether or not then due in such order and manner as Tranche B Agent determines;

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- (K) eleventh, to the *pro rata* payment in full of all Obligations due in respect of the Canadian Revolving Loans, Canadian Letter of Credit Accommodations and Canadian Hedging Liabilities in accordance with the terms of the Canadian Financing Agreements; and
 - (L) twelfth, to the *pro rata* payment in the full of all Obligations due in respect of the Canadian Tranche B Loan in accordance with the terms of the Canadian Financing Agreements;

provided, that in the event that, after the occurrence and during the continuance of a Priority Event, any payment is made to Tranche B Lenders in respect of the Tranche B Loan pursuant to clauses (G), (H), (I) and (J) above at a time when any of the Canadian Obligations owing to Canadian Revolving Lender under the Canadian Financing Agreements remain outstanding, then Tranche B Lenders receiving such payment shall purchase from Canadian Revolving Lender having Canadian Obligations outstanding under the Canadian Financing Agreements, a junior participation interest in Canadian Revolving Lender's Canadian Obligations under the Canadian Financing Agreements (the "**Junior Participation**") in the aggregate amount of the payment received by Tranche B Lenders in respect of the Tranche B Loan and Canadian Revolving Lender hereby agrees to sell to Tranche B Lenders its pro rata share of the Junior Participation. The terms and provisions of the Junior Participation shall be set forth in a junior participation agreement, in form and substance reasonably acceptable to Agent and Tranche B Agent, which agreement shall provide, among other things, that the payment priority of amounts payable to Tranche B Lenders in respect of the Junior Participation shall be the same as the payment priority of amounts payable to Canadian Tranche B Lenders in respect of the Canadian Tranche B Loan.

- (ii) **Tranche B Loan Priority Collateral.** Notwithstanding anything to the contrary contained in Section 5.4(a) and 5.4(b)(i) above, whether or not a Priority Event has occurred and is continuing, Agent shall apply payments received or collected from US Borrowers or for the account of US Borrowers arising from monetary proceeds of collections or of realization upon the Tranche B Loan Priority Collateral as follows (provided that, Accounts of SMTC Mex Holdings, Inc. arising from the sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of business before the occurrence of a Priority Event shall not be Tranche B Loan Priority Collateral and prior to the occurrence of a Priority Event, collections or realizations relating to the Tranche B Loan Priority Collateral shall not include proceeds of Inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business):
 - (A) first, in the event of Agent (or its assignee, designee, affiliates or agents) commencing and/or pursuing an Enforcement Action with respect to the Tranche B Loan Priority Collateral, to the payment

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- in full of all costs and expenses of such Persons with respect to such Enforcement Action and disposition of and realization upon the Tranche B Loan Priority Collateral;
- (B) second, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Tranche B Agent and Tranche B Lenders;
 - (C) third, to the *pro rata* payment in full of interest due in respect of the Tranche B Loan, Special Agent Advances and Special Tranche B Agent Advances;
 - (D) fourth, to the *pro rata* payment in full of principal due in respect of Special Agent Advances and Special Tranche B Agent Advances;
 - (E) fifth, to the payment in full of principal due in respect of the Tranche B Loan;
 - (F) sixth, to pay or prepay *pro rata* payment any other Obligations (other than with respect to Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities) whether or not then due in such order and manner as Tranche B Agent determines;
 - (G) seventh, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Agent and Revolving Lender;
 - (H) eighth, to the *pro rata* payment in full of interest and letter of credit fees due in respect of any Revolving Loans and Letter of Credit Accommodations;
 - (I) ninth, to the *pro rata* payment in full of principal due in respect of any Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities;
 - (J) tenth, to pay or prepay *pro rata* any other Obligations (other than with respect to the Tranche B Loan) whether or not then due, in such order and manner as Agent determines including holding as cash collateral in the amount equal to one hundred ten (110%) percent of the amount of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;
 - (K) eleventh, to the *pro rata* payment in full of all Obligations due in respect of the Canadian Tranche B Loan in accordance with the terms of the Canadian Financing Agreement; and
 - (L) twelfth, to the *pro rata* payment in the full of all Obligations due in respect of the Canadian Revolving Loan, Canadian Letter of Credit Accommodations and Canadian Hedging Liabilities in accordance with the terms of the Canadian Financing Agreement;

provided, that in the event that, after the occurrence and during the continuance of a Priority Event, any payment is made to Revolving Lender in respect of the Revolving Loan pursuant to clauses (G), (H), (I) or (J) above at a time when any of the Canadian Obligations owing to Canadian Tranche B Lender under the Canadian Financing Agreements remain outstanding, then Revolving Lender receiving such payment shall purchase from Canadian Tranche B Lenders having Canadian Obligations outstanding under the Canadian Financing Agreement, a junior participation interest in Canadian Tranche B Lenders' Obligations under the Canadian Financing Agreements (the "**Junior Participation**") in the aggregate amount of the payment received by Revolving Lender in respect of the Revolving Loan and each Canadian Tranche B Lender hereby agrees to sell to Revolving Lender its pro rata share of the Junior Participation. The terms and provisions of the Junior Participation shall be set forth in a junior participation agreement, in form and substance reasonably acceptable to the Agent and Tranche B Agent, which agreement shall provide, among other things, that the payment priority of amounts payable to Revolving Lender in respect of the Junior Participation shall be the same as the payment priority of amounts payable to Canadian Revolving Lender in respect of the Canadian Revolving Loan.

(c) All Obligations shall be payable to the Payment Account as provided in Section 5.3 or such other place as Agent may designate from time to time. All payments with respect to the Obligations must be made in US Dollars. At Agent's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged directly to the loan account(s) of US Borrowers. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Agent, Tranche B Agent or any US Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by such Agent, Tranche B Agent or US Lender. Each US Borrower shall be liable to pay to such Agent, Tranche B Agent or US Lender, and does hereby indemnify and hold such Agent, Tranche B Agent or Lender harmless for, the amount of any payments or proceeds surrendered or returned. Agent shall, upon receipt of any payment for the account of Tranche B Agent and/or Tranche B Lenders under this Agreement (including payments with respect to interest, principal and mandatory and voluntary prepayments of the Tranche B Loan pursuant to Sections 2.3 and 5.4) promptly, and in any event within three (3) Business Days of Agent's receipt of such payment, transfer such payment to Tranche B Agent for the benefit of Tranche B Lenders. This Section 5.4 shall remain effective notwithstanding any contrary action which may be taken by such Agent, Tranche B Agent or US Lenders in reliance upon such payment or proceeds. This Section 5.4 shall survive the payment of the Obligations and the termination of this Agreement.

5.5 Authorization to Make Loans and Letter of Credit Accommodations

Agent, Tranche B Agent and US Lenders, as the case may be, are authorized to make the Loans and provide the Letter of Credit Accommodations based upon written instructions received from anyone purporting to be an officer of a US Borrower or other authorized person or, at the discretion of Agent, if such Revolving Loans are necessary to satisfy any Obligations. All requests for Loans or Letter of Credit Accommodations hereunder shall

specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a Business Day) and the amount of the requested Loan. Requests received after 11:00 a.m. Chicago, Illinois time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, a US Borrower when deposited to the credit of such US Borrower or otherwise disbursed or established in accordance with the instructions of such US Borrower or in accordance with the terms and conditions of this Agreement.

5.6 Use of Proceeds

(a) US Borrowers shall use the initial proceeds of the Revolving Loans provided by Revolving Lender to US Borrowers hereunder only for: (a) payments to each of the persons listed in the disbursement direction letter furnished by US Borrowers to Revolving Lender and approved by Revolving Lender on or about the Closing Date and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements and Canadian Financing Agreements. All other Revolving Loans made or Letter of Credit Accommodations provided by Revolving Lender to US Borrowers pursuant to the provisions hereof shall be used by US Borrowers only for general operating, working capital and other proper corporate purposes of US Borrowers not otherwise prohibited by the terms hereof and approved by Revolving Lender.

(b) US Borrowers shall use the initial proceeds of the Tranche B Loan provided by Tranche B Lenders to US Borrowers hereunder only for: (a) refinancing existing indebtedness owed by SMTC Corporation and its Subsidiaries as set out in the disbursement direction letter furnished by US Borrowers to Tranche B Agent and approved by Tranche B Agent on or about the Closing Date, (b) pay fees and expenses relating to the Tranche B Loan and the transactions contemplated thereby, and (c) provide for the ongoing working capital of US Borrowers.

(c) None of the proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended.

5.7 Obligations Several; Independent Nature of US Lenders' Rights

The obligation of each US Lender hereunder is several, and no US Lender shall be responsible for the obligation or commitment of any other US Lender hereunder. Nothing contained in this Agreement or any of the other Financing Agreements and no action taken by US Lenders pursuant hereto or thereto shall be deemed to constitute US Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each US Lender shall be a separate and independent debt, and subject to Section 12.3 hereof, each US Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other US Lender to be joined as an additional party in any proceeding for such purpose.

SECTION 6. COLLATERAL REPORTING AND COVENANTS

6.1 Collateral Reporting

Each US Borrower shall provide Agent and Tranche B Agent with the following documents in a form satisfactory to Required Lenders: (a) on a regular basis as required by Agent, a schedule of Accounts, sales made, credits issued and cash received; (b) on a monthly basis within twenty (20) days after each month end or more frequently as Required Lenders may request, (i) perpetual inventory reports reconciled to the financial statements for such month, (ii) inventory reports by category, (iii) agings of accounts payable reconciled to the financial statements for such month, (iv) a reporting of all Chubb Insurance Company of Canada insured accounts receivable with a statement of any changes or deletions with respect thereto, (v) an officer's certificate from a senior officer of each US Borrower confirming that all amounts due and payable by such US Borrower and any Obligors in respect of (A) all indebtedness for borrowed money, and (B) all rents payable in respect of Leased Real Property, have been paid on the dates such amounts were due and payable and (vi) a duly completed and executed Borrowing Base Certificate together with any information which Agent requests in connection therewith, which Borrowing Base Certificate shall, in no event, be deemed to limit, impair or otherwise affect the rights of Agent contained in this Agreement and in the event of any conflict or inconsistency between the calculations made in the Borrowing Base Certificate and those made by Agent, although Agent shall be under no obligation to make its own calculations, those made by Agent shall be binding and conclusive on US Borrowers absent manifest error; and (vii) an officer's certificate from a senior officer of each US Borrower setting forth all due but unpaid tax obligations as of such time; (c) on a weekly basis (or more frequently as Required Lenders may request), within one (1) Business Day following the end of each calendar week, an accounts receivable aged trial balance; (d) upon Agent's request, (i) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements, (ii) copies of shipping and delivery documents, and (iii) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired by a US Borrower; (e) agings of accounts receivable on a monthly basis within twenty (20) days after month end or more frequently as Agent may request; and (f) such other reports as to the Collateral as Required Lenders shall request from time to time. If any of a US Borrower's records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper or other agent, such US Borrower hereby irrevocably authorizes such service, contractor, shipper or agent to deliver such records, reports, and related documents to Agent and to follow Agent's instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

6.2 Accounts Covenants

(a) Each US Borrower shall notify Agent and Tranche B Agent promptly of: (i) any material delay in a US Borrower's performance of any of its obligations to any account debtor or the assertion of any claims, offsets, defences or counterclaims by any account debtor, or any disputes with account debtors, or any settlement, adjustment or compromise thereof; (ii) all material adverse information relating to the financial condition of any account debtor; and (iii) any event or circumstance which, to such US Borrower's knowledge, would cause Agent to consider any then existing Accounts as no longer constituting Eligible Accounts. No credit,

discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Agent's consent, except in the ordinary course of such US Borrower's business in accordance with practices and policies previously disclosed in writing to Agent and Tranche B Agent. So long as no Event of Default exists or has occurred and is continuing, each US Borrower shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Agent shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.

(b) Without limiting the obligation of each US Borrower to deliver any other information to US Lenders, Tranche B Agent or Agent, each US Borrower shall promptly report to Agent and Tranche B Agent any return of Inventory by any one account debtor if the Inventory so returned in such case has a value in excess of US\$50,000. At any time that Inventory is returned, reclaimed or repossessed, the Account (or portion thereof) which arose from the sale of such returned, reclaimed or repossessed Inventory shall not be deemed an Eligible Account. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, applicable US Borrower shall, upon Agent's request: (i) hold the returned Inventory in trust for Agent; (ii) segregate all returned Inventory from all of its other property; (iii) dispose of the returned Inventory solely according to Agent's instructions; (iv) not issue any credits, discounts or allowances with respect thereto without Agent's prior written consent and (v) inform Agent and Tranche B Agent of any and all such action.

(c) With respect to each Account: (i) the amounts shown on any invoice delivered to Agent or Tranche B Agent or schedule thereof delivered to Agent or Tranche B Agent shall be true and complete; (ii) no payments shall be made thereon except payments immediately delivered to Agent pursuant to the terms of this Agreement; (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Agent and Tranche B Agent in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of a US Borrower's business in accordance with practices and policies previously disclosed in writing to Agent and Tranche B Agent; (iv) there shall be no set-offs, deductions, contras, defences, counterclaims or disputes existing or asserted with respect thereto except as reported to Agent and Tranche B Agent in accordance with the terms of this Agreement; and (v) none of the transactions giving rise thereto will violate any applicable foreign, Federal, State or local laws or regulations, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

(d) Agent shall have the right at any time or times, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

(e) Each US Borrower shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to such US Borrower, all chattel paper and instruments which such US Borrower now owns or may at any time acquire immediately upon such US Borrower's receipt thereof, except as Required Lenders may otherwise agree.

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

6.3 Inventory Covenants

With respect to the Inventory: (a) each US Borrower shall at all times maintain inventory records satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, such US Borrower's cost therefor and daily withdrawals therefrom and additions thereto; (b) each US Borrower shall conduct a physical count of the Inventory at least once each year, but at any time or times as Agent may request on or after an Event of Default, and promptly following such physical inventory shall supply Agent and Tranche B Agent with a report in the form and with such specificity as may be satisfactory to Agent concerning such physical count; (c) each US Borrower shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales of Inventory in the ordinary course of such US Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) upon Agent's and Tranche B Agent's request, each US Borrower shall, at its expense, but no more than once in any six (6) month period, but at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent and Tranche B Agent written reports or appraisals as to the Inventory in form, scope and methodology acceptable to Required Lenders and by an appraiser acceptable to Required Lenders, addressed to Agent or upon which Agent is expressly permitted to rely; (e) each US Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including the requirements of the *Federal Fair Labor Standards Act* of 1938, as amended and all rules, regulations and orders related thereto); (f) each US Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (g) each US Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate such US Borrower to repurchase such Inventory; (h) each US Borrower shall keep the Inventory in good and marketable condition; (i) each US Borrower shall not, without prior written notice to Agent and Tranche B Agent, acquire or accept any Inventory on consignment or approval and (j) none of the Inventory or other Collateral constitutes farm products or the proceeds thereof.

6.4 Equipment Covenants

With respect to the Equipment: (a) each US Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (b) each US Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (c) the Equipment is and shall be used in applicable US Borrower's business and not for personal, family, household or farming use; (d) each US Borrower shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of such US Borrower or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of a US Borrower in the ordinary course of business; (e) the Equipment is now and shall remain personal property and each US Borrower shall not permit any of the Equipment to be or become a part of or affixed to real property; and (f) each US Borrower assumes all responsibility and liability arising from the use of the Equipment.

6.5 Power of Attorney

Each US Borrower hereby irrevocably designates and appoints Agent (and all persons designated by Agent) as such US Borrower's true and lawful attorney-in-fact, and authorizes Agent, in such US Borrower's or Agent's name, to: (a) at any time a Default or an Event of Default exists or has occurred and is continuing: (i) demand payment on Accounts or other proceeds of Inventory or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of such US Borrower's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as Agent deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign such US Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor, (viii) notify the post office authorities to change the address for delivery of such US Borrower's mail to an address designated by Agent, and open and dispose of all mail addressed to such US Borrower, and (ix) do all acts and things which are necessary, in Agent's determination, to fulfill such US Borrower's obligations under this Agreement and the other Financing Agreements and Canadian Financing Agreements; and (b) at any time to: (i) take control in any manner of any item of payment or proceeds thereof, (ii) have access to any lockbox or postal box into which such US Borrower's mail is deposited, (iii) endorse such US Borrower's name upon any items of payment or proceeds thereof and deposit the same in Agent's account for application to the Obligations, (iv) endorse such US Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral including any warehouse or other receipts, or bills of lading and other negotiable or non-negotiable documents, (v) sign such US Borrower's name on any verification of Accounts and notices thereof to account debtors, (vi) execute in such US Borrower's name and file any PPSA, UCC or other financing statements or amendments thereto relating to the Collateral, and (vii) as required by Agent in its reasonable

credit judgment, clear Inventory, the purchase of which was financed with Letter of Credit Accommodations, through U.S. Customs or foreign export control authorities in such US Borrower's name, Agent's name or the name of Agent's designee, and to sign and deliver to customs officials powers of attorney in such US Borrower's name for such purpose, and to complete in such US Borrower's or Agent's name, any order, sale or transaction, obtain the necessary documents in connection therewith and collect the proceeds thereof. Each US Borrower hereby releases Agent, Tranche B Agent and/or US Lenders and their respective officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's, Tranche B Agent's and/or a Lender's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

6.6 Right to Cure

Agent may at its option: (a) cure any default by a US Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against a US Borrower; (b) discharge taxes, Liens or other encumbrances at any time levied on or existing with respect to the Collateral; and (c) pay any amount, incur any expense or perform any act which, in Agent's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent with respect thereto. Agent may add any amounts so expended to the Obligations and charge a US Borrower's account therefor, such amounts to be repayable by each US Borrower on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of US Borrowers. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

6.7 Access to Premises

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

SECTION 7. REPRESENTATIONS AND WARRANTIES

Each US Borrower hereby represents and warrants to Agent, Tranche B Agent and US Lenders the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations by Agent, Tranche B Agent and US Lenders to US Borrowers:

7.1 Corporate Existence, Power and Authority; Subsidiaries

Each US Borrower is a corporation duly incorporated, validly existing and duly organized under the laws of its jurisdiction of incorporation and is duly qualified or registered as a foreign corporation in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or business or the rights of Agent in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and Canadian Financing Agreements and the transactions contemplated hereunder and thereunder are all within each US Borrower's corporate powers, have been duly authorized, are not in contravention of law or the terms of each US Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which it is a party or by which it or its property is bound and will not result in the creation or imposition of, or require or give rise to any obligation to grant, any Lien upon any of its property or assets. This Agreement and the other Financing Agreements and Canadian Financing Agreements constitute legal, valid and binding obligations of each US Borrower enforceable in accordance with their respective terms. Each US Borrower does not have any Subsidiaries or affiliates except as set forth on its Information Certificate.

7.2 Financial Statements; No Material Adverse Change

All financial statements relating to each US Borrower which have been or may hereafter be delivered by it to Agent and Tranche B Agent have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of it as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by each US Borrower to Agent and Tranche B Agent prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of it, since the date of the most recent audited financial statements furnished by it to Agent and Tranche B Agent prior to the date of this Agreement.

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

(a) The exact legal name of each US Borrower is as set forth on the signature page of this Agreement and in its Information Certificate. No US Borrower has, during the five (5) years prior to the date of this Agreement, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in its Information Certificate.

(b) Each US Borrower is an organization of the type and organized in the jurisdiction set forth in its Information Certificate. Its Information Certificate accurately sets forth the organizational identification number of such US Borrower or accurately states that such US Borrower has none and accurately sets forth the federal employer identification number of such US Borrower.

(c) The chief executive office of each US Borrower and its Records concerning Accounts are located only at the addresses set forth below opposite its name and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in its Information Certificate, subject to the right of each US Borrower to establish new locations in accordance with Section 8.2 below. Each Information Certificate correctly identifies the chief executive office of each Obligor and all other places of business and other locations, if any, at which any Obligor maintains any Collateral. The Information Certificates also correctly identify any of such locations which are not owned by a US Borrower or any Obligor and sets forth the owners and/or operators thereof and to the best of each US Borrower's knowledge, the holders of any mortgages on such locations.

7.4 Priority of Liens; Title to Properties

The Liens granted to Agent under this Agreement and the other Financing Agreements constitute valid and perfected first priority Liens in and upon the Collateral subject only to the Liens indicated on Schedule 7.4 hereto (except to the extent that Agent and Tranche B Agent require the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder) and the other Liens permitted under Section 8.8 hereof. Each US Borrower has good and marketable title to all of its properties and assets subject to no Liens of any kind, except those granted to Agent and such others as are specifically listed on Schedule 7.4 hereto (except to the extent that Agent and Tranche B Agent require the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder) or permitted under Section 8.8 hereof.

7.5 Tax Returns

Each US Borrower has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Agent and Tranche B Agent). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Each US Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, provincial, municipal, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

7.6 Litigation

Except as set forth on its Information Certificate, there is no present investigation by any governmental agency pending, or to the best of each US Borrower's knowledge threatened, against or affecting it, its assets or business and there is no action, suit, proceeding or

claim by any Person pending, or to the best of each US Borrower's knowledge threatened, against it or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against it would result in any material adverse change in the assets, business or prospects of it or would impair the ability of it to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Agent, Tranche B Agent and/or US Lenders to enforce any Obligations or realize upon any Collateral.

7.7 Compliance with Other Agreements and Applicable Laws

(a) Each US Borrower is not in default in any material respect, under, or in violation, in any material respect, of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound and it is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority (including those set forth in or promulgated pursuant to the *Occupational Safety and Health Act* of 1970, as amended, the *Fair Labor Standards Act* of 1938, as amended, ERISA, the Bankruptcy Code, as amended, and all Environmental Laws).

(b) Each US Borrower has obtained all material permits, licenses, approvals, consents, certificates, orders or authorizations of any governmental authority required for the lawful conduct of its business (the "**Permits**"). All of the Permits are valid and subsisting and in full force and effect. There are no actions, claims or proceedings pending or to the best of any US Borrower's knowledge, threatened that seek the revocation, cancellation, suspension or modification of any of the Permits.

7.8 Bank Accounts

All of the deposit accounts, investment accounts or other accounts in the name of or used by each US Borrower maintained at any bank or other financial institution are set forth on Schedule 7.8 hereto, subject to the right of each US Borrower to establish new accounts in accordance with Section 8.14 below.

7.9 Accuracy and Completeness of Information

All information furnished by or on behalf of each US Borrower in writing to Agent, Tranche B Agent or US Lenders in connection with this Agreement or any of the other Financing Agreements or Canadian Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificates is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on the business, assets or prospects of US Borrowers, which has not been fully and accurately disclosed to Agent and Tranche B Agent in writing.

7.10 Status of Pension Plans

(a) The Pension Plans (if any) are duly registered under all applicable pension benefits legislation.

(b) All obligations of it (including fiduciary, funding, investment and administration obligations) required to be performed in connection with any Pension Plans or the funding agreements therefor have been performed in a timely fashion. There are no outstanding disputes concerning the assets held pursuant to any such funding agreement.

(c) All contributions or premiums required to be made by it to any Pension Plans have been made in a timely fashion in accordance with the terms of such Pension Plans and applicable laws and regulations.

(d) All employee contributions to any Pension Plans required to be made by way of authorized payroll deduction have been properly withheld by it and fully paid into such Pension Plans in a timely fashion.

(e) All reports and disclosures relating to any Pension Plans required by any applicable laws or regulations have been filed or distributed in a timely fashion.

(f) There have been no improper withdrawals, or applications of, the assets of any Pension Plans.

(g) No amount is owing by any Pension Plans under the US Tax Code or any other similar Federal, State or local legislation.

(h) Pension Plans are fully funded both on an ongoing basis and on a solvency basis (using actuarial assumptions and methods which are consistent with the valuations last filed with the applicable governmental authorities and which are consistent with generally accepted actuarial principles).

(i) Each US Borrower, after diligent inquiry, has neither any knowledge, nor any grounds for believing, that any Pension Plans are the subject of an investigation, any other proceeding, an action or a claim (other than claims for benefits in the ordinary course). There exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such proceeding, action or claim.

(j) Each Pension Plan is in compliance in all material respects with the applicable provisions of ERISA, the U.S. Tax Code and other U.S. Federal, State or local law. Each Pension Plan which is intended to qualify under Section 401(a) of the U.S. Tax Code has received a favorable determination letter from the Internal Revenue Service and is so qualified and nothing has occurred which would cause the loss of such qualification. Each US Borrower and its ERISA Affiliates have made all required contributions to any Pension Plan subject to Section 412 of the U.S. Tax Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the U.S. Tax Code has been made with respect to any Pension Plan.

(k) (i) No ERISA Event occurred or is reasonably expected to occur; (ii) the current value of each Pension Plan's assets (determined in accordance with the assumptions used for funding such Pension Plan pursuant to Section 412 of the U.S. Tax Code) are not less than such Pension Plan's liabilities under Section 4001(a)(16) of ERISA; (iii) each US Borrower, and their ERISA Affiliates, have not incurred and do not reasonably expect to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent

under Section 4007 of ERISA); (iv) each US Borrower, and their ERISA Affiliates, have not incurred and do not reasonably expect to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; (v) each US Borrower, and their ERISA Affiliates, have not engaged in a transaction that would be subject to Section 4069 or 4212(c) or ERISA and (vi) no Lien imposed under the U.S. Tax Code or ERISA exists or is likely to arise on account of any Pension Plan within the meaning of Section 412 of the U.S. Tax Code. Except as required by Section 4980B of the U.S. Tax Code, no US Borrower or any ERISA Affiliates maintains an employee welfare benefit plan (as defined in Section 3(1) of ERISA) which provides health or welfare benefits (through the purchase of insurance or otherwise) for any retired or former employee of any US Borrower or any ERISA Affiliates or coverage after a participant's termination of employment.

7.11 Environmental Compliance

(a) Each US Borrower has not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law in any material respect or any license, permit, certificate, approval or similar authorization thereunder and the operations of each US Borrower comply in all material respects with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.

(b) There has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any governmental authority or any other person nor is any pending or to the best of each US Borrower's knowledge threatened, with respect to any non-compliance with or violation of the requirements of any Environmental Law by it or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects each US Borrower or their business, operations or assets or any properties at which it has transported, stored or disposed of any Hazardous Materials.

(c) Each US Borrower has no material liability (contingent or otherwise) in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.

(d) Each US Borrower has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with the operation of its business under any Environmental Law and all of such licenses, permits, certificates, approvals or similar authorizations are valid and in full force and effect.

7.12 U.S. Legislation

(a) Other than as provided under the applicable incorporating or formation statute of each US Borrower, it is not subject to regulation under the *Federal Power Act*, the *Interstate Commerce Act* or the *Investment Company Act* of 1940 or to any U.S. or Canadian federal, state or provincial statute or regulation limiting its ability to incur indebtedness for money borrowed.

(b) No US Borrower is by itself, nor is it by virtue of its being under “common control” with any other Person within the meaning of Section 414(b) or (c) of the U.S. Tax Code, an “employer” within the meaning of Section 3(5) of ERISA, in respect of any employee person benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under the U.S. Tax Code.

(c) No part of the proceeds of the Loans will be used for any purpose that violates the provisions of any Regulation T, U or X of the Board of Governors of the Federal Reserve System of the United States of America or any other regulation of such Board of Governors, no US Borrower is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System; and no US Borrower owns any such “margin stock”.

7.13 Intellectual Property

Each US Borrower owns or licenses or otherwise has the right to use all intellectual property necessary for the operation of its business as presently conducted or proposed to be conducted. As of the Closing Date, each US Borrower does not have any intellectual property registered, or subject to pending applications, in the United States Patent and Trademark Office, the Canadian Intellectual Property Office or any similar office or agency in the US or Canada, any State or Province thereof, any political subdivision thereof or in any other country, other than those described in its Information Certificate and has not granted any licenses with respect thereto other than as set forth in its Information Certificate. No event has occurred which permits or would permit after notice or passage of time or both, the revocation, suspension or termination of such rights. No product, process, method, substance or other intellectual property or goods bearing or using any intellectual property presently contemplated to be sold by or employed by a US Borrower infringes any patent, trademark, service mark, trade name, copyright, license or other intellectual property owned by any other Person presently and no claim or litigation is pending or threatened against or affecting a US Borrower contesting its right to sell or use any such intellectual property. Its Information Certificate sets forth all of the agreements or other arrangements of applicable US Borrower pursuant to which it has a license or other right to use any trademarks, logos, designs, representations or other intellectual property owned by another person as in effect on the Closing Date and the dates of the expiration of such agreement or other arrangements of applicable US Borrower as in effect on the Closing Date (collectively, together with such agreement or other arrangement as may be entered into by a US Borrower after the Closing Date, collectively, the “**License Agreements**” and individually, a “**License Agreement**”). No trademark, service mark, copyright or other intellectual property at any time used by a US Borrower which is owned by another person, or owned by a US Borrower subject to any security interest, lien, collateral assignment, pledge or other encumbrance in favor of any person other than Agent, is affixed to any Eligible Inventory, except (a) to the extent permitted under the terms of the License Agreement(s) listed in the Information Certificates (if any); and (b) to the extent the sale of Inventory to which such intellectual property is affixed is permitted to be sold by a US Borrower under applicable law (including the United States Copyright Act of 1976).

7.14 Subsidiaries; Affiliates; Capitalization; Solvency

(a) No US Borrower has any direct or indirect Subsidiaries or Affiliates and is not engaged in any joint venture or partnership except as set forth in its Information Certificate.

(b) Each US Borrower is the record and beneficial owner of all of the issued and outstanding shares in the capital of each of the Subsidiaries listed in its Information Certificate as being owned by it and there are no proxies, irrevocable or otherwise, with respect to such shares and no equity securities of any of the Subsidiaries are or may become required to be issued by reason of any options, warrants, rights to subscribe to, calls or commitments of any kind or nature and there are no contracts, commitments, understandings or arrangements by which any Subsidiary is or may become bound to issue additional shares or securities convertible into or exchangeable for such shares.

(c) The issued and outstanding shares in the capital of each US Borrower is directly and beneficially owned and held by the persons indicated in its Information Certificate, and in each case all of such shares have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind, except as disclosed in writing to Agent and Tranche B Agent prior to the Closing Date.

(d) Each US Borrower is Solvent and will continue to be Solvent after the creation of the Obligations, the Liens of Agent and the other transactions contemplated hereunder.

7.15 Survival of Warranties; Cumulative

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

7.16 Inactive Subsidiaries

No Inactive Subsidiary (a) has any assets (other than intercompany receivables), (b) has any liabilities (other than intercompany liabilities) or (c) engages in any material business activities.

7.17 Labour Disputes

(a) Set forth on Schedule 7.17 hereto is a list (including dates of termination) of all collective bargaining or similar agreements between or applicable to each US Borrower and any union, labor organization or other bargaining agent in respect of the employees of any US Borrower or its Subsidiaries on the Closing Date.

(b) There is (i) no significant unfair labor practice complaint pending against any US Borrower or, to the best of any US Borrower's knowledge, threatened against it, before the National Labor Relations Board, and no significant grievance or arbitration proceeding arising out of or under any collective bargaining agreement is pending on the Closing Date against any US Borrower or, to best of any US Borrower's knowledge, threatened against it, (ii) no significant strike, labor dispute, slowdown or stoppage pending against any US Borrower or, to the best of any US Borrower's knowledge, threatened against any US Borrower and (iii) to the best knowledge of any US Borrower, no union representation question existing with respect to the employees of any US Borrower and no union organizing activity taking place with respect to any of the employees of any US Borrower. No US Borrower or any ERISA Affiliates has incurred any liability or obligation under the Worker Adjustment and Retraining Notification Act ("WARN") or similar state law, which remains unpaid or unsatisfied. The hours worked and payments made to employees or any US Borrower have not been in violation of the Fair Labor Standards Act or any other applicable legal requirements. All material payments due from any US Borrower on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of such US Borrower.

7.18 Interrelated Business

US Borrowers, Obligors and their respective Subsidiaries make up a related organization of various entities constituting a single economic and business enterprise so that US Borrowers, Obligors and their respective Subsidiaries share an identity of interests such that any benefit received by any one of them benefits the others. US Borrowers, Obligors and their respective Subsidiaries render services to or for the benefit of the other US Borrowers and/or Obligors and their respective Subsidiaries, as the case may be, purchase or sell and supply goods to or from or for the benefit of the others, make loans, advances and provide other financial accommodations to or for the benefit of the other US Borrowers, Obligors and their respective Subsidiaries (including, *inter alia*, the payment by US Borrowers and Obligors of creditors of other US Borrowers or Obligors and guarantees by US Borrowers and Obligors of indebtedness of other US Borrowers and Obligors and provide administrative, marketing, payroll and management services to or for the benefit of other US Borrowers and Obligors). US Borrowers, Obligors and their respective Subsidiaries have centralized accounting and legal services, common officers and directors and are identified to creditors as single economic and business enterprise.

SECTION 8. AFFIRMATIVE AND NEGATIVE COVENANTS

8.1 Maintenance of Existence

(a) Each US Borrower shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Each US Borrower shall give Agent and Tranche B Agent thirty (30) days prior written notice of any proposed change in its or any Obligor's corporate name, which notice shall set forth the new name and it shall deliver to Agent and Tranche B Agent a certified copy of its or such Obligor's Articles of Amendment providing for the name change immediately following its filing.

(b) No US Borrower shall change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall not acquire one) unless Agent and Tranche B Agent shall have received not less than thirty (30) days' prior written notice from such US Borrower of such proposed change, which notice shall set forth such information with respect thereto as Required Lenders may require and Agent and Tranche B Agent shall have received such agreements as Required Lenders may reasonably require in connection therewith. No US Borrower shall change its type of organization, jurisdiction of organization or other legal structure.

8.2 New Collateral Locations

Each US Borrower may open any new location within the US provided it (a) gives Agent and Tranche B Agent thirty (30) days prior written notice of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Agent and Tranche B Agent such agreements, documents, and instruments as Required Lenders may deem necessary or desirable to protect their interests in the Collateral at such location, including PPSA or UCC and other financing statements and such other evidence as Required Lenders may require for the perfection of Agent's first priority Liens.

8.3 Compliance with Laws, Regulations, Etc.

(a) Each US Borrower shall at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe in all material respects all requirements of any Federal, Provincial, State or local governmental authority, including all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws except for any matter that it is contesting in good faith by appropriate proceedings diligently pursued and which is not reasonably expected to have a material adverse effect on it or its property, operations, business, prospects or conditions (financial or otherwise).

(b) Each US Borrower shall establish and maintain, at its expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by its employees or agents who are familiar with the requirements of the Environmental Laws. Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by it to Agent and Tranche B Agent. Each US Borrower shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Agent and Tranche B Agent on such response.

(c) Each US Borrower shall give both oral and written notice to Agent and Tranche B Agent immediately upon its receipt of any notice of, or its otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material where notice of such occurrence would be required to be given by a US Borrower to an applicable governmental authority or any other person under Environmental Laws or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by it or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal

of any Hazardous Materials or (D) any other environmental, health or safety matter, which affects it or its business, operations or assets or any properties at which it transported, stored or disposed of any Hazardous Materials.

(d) Without limiting the generality of the foregoing, whenever Required Lenders determine that there is material non-compliance, or any condition which requires any action by or on behalf of a US Borrower in order to avoid any material non-compliance, with any Environmental Law, such US Borrower shall, at such Required Lenders' request, and at such US Borrower's expense: (i) cause an independent environmental engineer acceptable to such Required Lenders to conduct such tests of the site where its non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Agent and Tranche B Agent a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof and (ii) provide to Agent and Tranche B Agent a supplemental report of such engineer whenever the scope of such non-compliance, or its response thereto or the estimated costs thereof, shall change in any material respect.

(e) Each US Borrower shall indemnify and hold harmless US Lenders, Tranche B Agent, Agent and their respective directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including legal fees and expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any of its property and the preparation and implementation of any closure, remedial or other required plans.

All covenants and indemnifications in this Section 8.3 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

8.4 Payment of Taxes and Claims

Each US Borrower shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and with respect to which adequate reserves have been set aside on its books.

8.5 Insurance

Each US Borrower shall at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Required Lenders as to form, amount and insurer. Each US Borrower shall furnish certificates, policies or endorsements to Agent and Tranche B Agent and as Agent and Required Lenders shall require as proof of such insurance, and, if it fails to do so, each of Agent and Tranche B Agent is authorized, but not required, to obtain such insurance at the expense of US Borrowers. All policies shall provide for at least thirty (30) days

prior written notice to Agent of any cancellation or reduction of coverage and that Agent may act as attorney for each US Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Each US Borrower shall cause Agent to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and it shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Required Lenders. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Agent as its interests may appear and further specify that Agent shall be paid regardless of any act or omission by any US Borrower or any of its affiliates. Such proceeds shall applied in accordance with Section 2.3 and Section 5.4 of this Agreement, as applicable.

8.6 Financial Statements and Other Information

(a) Each US Borrower shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of such US Borrower and its Subsidiaries in accordance with GAAP and each US Borrower shall furnish or cause to be furnished to Agent and Tranche B Agent:

- (i) within twenty (30) days after the end of each fiscal month or within forth-five (45) days after the end of a fiscal month that is the month end of a fiscal quarter of SMTC Corporation, monthly unaudited financial statements of Canadian Borrower and US Borrowers and unaudited consolidating financial statements of SMTC Corporation (including in each case balance sheets, statements of income and loss, statements of cash flow, statements of shareholders' equity, sales backlog reports and sales and profitability reports for the ten (10) largest customers of SMTC and its Subsidiaries), all in reasonable detail, fairly presenting the financial position and the results of the operations of US Borrowers, Canadian Borrower and SMTC Corporation and their respective Subsidiaries as of the end of and through such fiscal month;
- (ii) within forty-five (45) days after the end of each fiscal quarter of SMTC Corporation, quarterly unaudited financial statements of Canadian Borrower and US Borrowers and unaudited consolidating financial statements of SMTC Corporation (including in each case balance sheets, statements of income and loss, statements of cash flow, statements of shareholders' equity, sales backlog reports and sales and profitability reports for the ten (10) largest customers of SMTC and its Subsidiaries), all in reasonable detail, fairly presenting the financial position and the results of the operations of US Borrowers, Canadian Borrower and SMTC Corporation and their respective Subsidiaries as of the end of and through such fiscal quarter together with a certificate of the chief financial officer of each US Borrower in form and content satisfactory to US Lenders (each, an "**Officer's Compliance Certificate**") setting out the Total Leverage Ratio for the calculation of the Applicable Margin and compliance with Sections 8.18, 8.22, 8.23 and 8.24, each as at the end of the most recent fiscal quarter of SMTC Corporation, and the calculations used to determine such ratio and compliance and attaching the financial statements used to determine such ratio and compliance;

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- (iii) within ninety (90) days after the end of each fiscal year of SMTC Corporation, audited consolidated financial statements of SMTC Corporation (which includes US Borrowers, Canadian Borrower and their respective Subsidiaries (including in each case balance sheets, statements of income and loss, statements of changes in financial position and statements of shareholders' equity)), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of the applicable Person and its Subsidiaries as of the end of and for such fiscal year, together with the unqualified opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by SMTC Corporation and acceptable to US Lenders, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of the applicable Person and its Subsidiaries as of the end of and for the fiscal year then ended;
 - (iv) not less than sixty (60) days prior to the end of each fiscal year of SMTC Corporation, annual financial projections for the next fiscal year of SMTC Corporation and its Subsidiaries, which shall be approved by US Lenders and shall include a projected consolidated balance sheet, income statement and statement of cash flow, prepared on a monthly basis for such fiscal year, proposed budgets for operating and capital expenditures, acquisitions and related financing costs for SMTC Corporation and its Subsidiaries, details of all management salaries and bonuses, and such other information as may be requested by Agent and Tranche B Agent; and
 - (v) not less than thirty (30) days prior to the end of each fiscal quarter of SMTC Corporation, quarterly financial projections for the next fiscal quarter of SMTC Corporation and its Subsidiaries, which shall be approved by US Lenders and shall include a projected consolidated balance sheet, income statement and statement of cash flow, prepared on a monthly basis for such fiscal quarter, proposed budgets for operating and capital expenditures, acquisitions and related financing costs for SMTC Corporation and its Subsidiaries, details of all management salaries and bonuses, and such other information as may be requested by Agent and Tranche B Agent.

(b) Each US Borrower shall promptly notify Agent and Tranche B Agent in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in its business, properties, assets, goodwill or condition, financial or otherwise, (ii) the occurrence of any Default or Event of Default and (iii) any ERISA Event.

(c) Each US Borrower shall promptly after the sending or filing thereof furnish or cause to be furnished to Agent and Tranche B Agent copies of all reports which it sends to its shareholders generally and copies of all reports and registration statements which it files with any provincial securities commission or securities exchange.

(d) Each US Borrower shall furnish or cause to be furnished to Agent and Tranche B Agent such budgets, forecasts, projections and other information respecting the Collateral and the business of US Borrowers, as Agent and Tranche B Agent may, from time to time, request. Agent and Tranche B Agent are hereby authorized to deliver a copy of any financial statement or any other information relating to the business of US Borrowers to (i) any court or other government agency as required or requested by such court or other government agency or if Agent and Tranche B Agent reasonably believe it is compelled to do so by any court decree, subpoena or legal or administrative order or process or (ii) any participant or assignee or prospective participant or assignee provided such prospective participant or assignee agrees to maintain such information confidential and not disclose it to any other Person pursuant to the terms of a confidentiality agreement satisfactory to US Lenders and entered into between Agent and such prospective participant or assignee or until such prospective participant or assignee becomes a participant or assignee pursuant to the terms of Section 11.4 hereof. Each US Borrower hereby irrevocably authorizes and directs all accountants or auditors to deliver to Agent and Tranche B Agent, at US Borrowers' expense, copies of the financial statements of US Borrowers and any reports or management letters prepared by such accountants or auditors on behalf of US Borrowers and to disclose to Agent and Tranche B Agent such information as they may have regarding the business of US Borrowers. Any documents, schedules, invoices or other papers delivered to Agent and Tranche B Agent may be destroyed or otherwise disposed of by Agent and Tranche B Agent one (1) year after the same are delivered to Agent and Tranche B Agent, except as otherwise designated by US Borrowers to Agent and Tranche B Agent in writing.

(e) Each US Borrower shall within five (5) Business Days after the end of each month provide a certificate of its chief financial officer, in form and content satisfactory to US Lenders, certifying that it has paid in full: (i) all rent and other amounts due and payable with respect to any Leased Real Property during such month; and (ii) all payments and other amounts due and payable with respect to any Pension Plan or any material contract during such month.

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

Each US Borrower shall not, directly or indirectly, (a) amalgamate with any other Person or permit any other Person to amalgamate with it or merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, or (b) sell, issue, assign, lease, transfer, abandon or otherwise dispose of any shares or indebtedness to any other Person or any of its assets to any other Person (except for (i) transfers to an Obligor that has executed and delivered a general security agreement or other similar security in favor of Agent granting it a first-ranking, registered and enforceable Lien (as determined by Agent, as applicable) in respect of all the undertaking, property and assets, present and future, real and personal, of such Obligor, (ii) sales of Inventory in the ordinary course of business and (iii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in its business so long as (A) any proceeds are paid to Agent and applied in accordance with Sections 2.3 and 5.4 of this Agreement, as applicable, and (B) such sales do not involve Equipment having an aggregate fair market value in excess of US\$50,000 for all such Equipment disposed of in its fiscal year), or (c) form or acquire any Subsidiaries, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing.

8.8 Encumbrances

Each US Borrower shall not create, incur, assume or suffer to exist any Lien of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) Liens of Agent; (b) Liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory Liens (other than Liens securing the payment of taxes) arising in the ordinary course of its business to the extent: (i) such Liens secure indebtedness which is not overdue or (ii) such Liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to it, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of its business as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) Liens securing any Capital Expenditures permitted by Section 8.24; and (f) the Liens set forth on Schedule 7.4 hereto (except to the extent that Tranche B Agent and/or Agent requires the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder).

8.9 Indebtedness

Each US Borrower shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except (a) the Obligations; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which it is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to it, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by Liens (including capital leases) in violation of any other provision of this Agreement; and (d) the indebtedness set forth on Schedule 8.9 hereto; provided, that, (i) it may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the Closing Date, (ii) each US Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the Closing Date, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) each US Borrower shall furnish to Agent and Tranche B Agent all notices or demands in connection with all such indebtedness either received by it or on its behalf, promptly after the receipt thereof, or sent by it or on its behalf, concurrently with the sending thereof, as the case may be.

8.10 Loans, Investments, Guarantees, Etc.

Each US Borrower shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the shares or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in: (i) short-term direct obligations of the US Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Agent, payable to the order of a US Borrower or to bearer and delivered to Agent, and (iii) commercial paper rated A1 or P1; provided, that, as to any of the foregoing, unless waived in writing by Required Lenders, each US Borrower shall take such actions as are deemed necessary by Required Lenders to perfect the security interest of Agent in such investments; (c) the loans, advances and guarantees set forth on Schedule 8.10 hereto; provided, that, as to such loans, advances and guarantees, (i) each US Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose, and (ii) each US Borrower shall furnish to Agent and Tranche B Agent all notices or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by it or on its behalf, promptly after the receipt thereof, or sent by it or on its behalf, concurrently with the sending thereof, as the case may be; and (d) loans to SMTC Corporation and/or HTM not to exceed the amount, and to the extent such amount has not already been paid as dividends or loans to SMTC Corporation and/or HTM as provided, and for the purposes set forth, in Section 8.11 of this Agreement and Sections 8.10 and 8.11 of the Canadian Loan Agreement, required in any fiscal year of SMTC Corporation to allow (i) SMTC Corporation to pay its consolidated income taxes payable and (ii) SMTC Corporation and HTM to pay their respective administrative costs (being the legal and audit fees and insurance costs payable by SMTC Corporation on behalf of its Subsidiaries) consistent with past practice (as disclosed in writing to Agent prior to the Closing Date) up to US\$2,500,000 in the aggregate per fiscal year of SMTC Corporation.

8.11 Dividends and Redemptions

Each US Borrower shall not, directly or indirectly, declare or pay any dividends on account of any of its shares now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common shares or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing; provided, however, that US Borrowers may pay dividends to SMTC Corporation and/or HTM not to exceed the amount, and to the extent such amount has not already been provided by way of loans or dividends to SMTC Corporation and/or HTM as provided, and for the purposes set forth, in Section 8.10 of this Agreement and Sections 8.10 and 8.11 of the Canadian Loan Agreement, required in any fiscal year of SMTC Corporation to allow

(i) SMTC Corporation to pay its consolidated income taxes payable with respect to its investment in US Borrowers and (ii) SMTC Corporation and HTM to pay their respective administrative costs (being the legal and audit fees and insurance costs payable by SMTC Corporation on behalf of its Subsidiaries) consistent with past practice (as disclosed in writing prior to the Closing Date) up to US\$2,500,000 in the aggregate per fiscal year of SMTC Corporation.

8.12 Transactions with Affiliates

Each US Borrower shall not, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with it, except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with it except reasonable compensation to officers, employees and directors for services rendered to it the ordinary course of business.

8.13 Intellectual Property

In the event a US Borrower obtains or applies for any material intellectual property rights or obtains any material licenses with respect thereto, it shall immediately notify Agent and Tranche B Agent thereof and shall provide to Agent and Tranche B Agent copies of all written materials including applications and licenses with respect to such intellectual property rights. At Agent's or Tranche B Agent's request, each US Borrower shall promptly execute and deliver to Agent an intellectual property security agreement granting to Agent a perfected Lien in such intellectual property rights in form and substance satisfactory to Required Lenders.

8.14 Additional Bank Accounts

Each US Borrower shall not, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in Schedule 7.8 hereto, except: (a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Required Lenders and subject to such conditions thereto as Required Lenders may establish and (b) as to any accounts used by it to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Agent and Tranche B Agent.

8.15 Operation of Pension Plans

(a) US Borrowers shall provide to Agent and Tranche B Agent (i) as soon as possible and in any event within ten (10) days after any US Borrower or any ERISA affiliate thereof knows or has reason to know that (1) any Reportable Event with respect to any Pension Plan has occurred, (2) any other ERISA Event with respect to any Pension Plan has occurred, or (3) an accumulated funding deficiency has been incurred or an application has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard

(including installment payments) or an extension of any amortization period under Section 412 of the U.S. Tax Code with respect to a Pension Plan, a statement of an officer of US Borrower setting forth the details of such occurrence and the action, if any, which such US Borrower or such ERISA Affiliate proposes to take with respect thereto, (ii) promptly and in any event within three (3) days after receipt thereof by any US Borrower or any ERISA Affiliate thereof from PBGC, copies of each notice received by any US Borrower or any ERISA Affiliate thereof of the PBGC's intention to terminate any Plan or to have a trustee appointed to administer any Plan, (iii) promptly and in any event within ten (10) days after the filing thereof with the Internal Revenue Service if requested by Agent or Tranche B Agent, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Pension Plan and Multiemployer Plan, (iv) promptly and in any event within ten (10) days after any US Borrower or any ERISA Affiliate thereof knows or has reason to know that a required installment within the meaning of Section 412 of the U.S. Tax Code has not been made when due with respect to a Pension Plan, notice thereof, (v) promptly and in any event within three (3) days after receipt thereof by any US Borrower or any ERISA Affiliate thereof from a sponsor of a Multiemployer Plan or from the PBGC, a copy of each notice received by any US Borrower or any ERISA Affiliate thereof concerning the imposition or amount of withdrawal liability under Section 4202 of ERISA or indicating that such Multiemployer Plan may enter reorganization status under Section 4241 of ERISA, and (vi) promptly and in any event within ten (10) days after any US Borrower or any ERISA Affiliate thereof sends notice of a plant closing or mass layoff (as defined on WARN) to employees, copies of each such notice sent by such US Borrower or such ERISA Affiliate thereof.

(b) Each US Borrower shall promptly provide Agent and US Lenders with any documentation relating to any of the Pension Plans as Agent and US Lenders may request. Each US Borrower shall notify Agent and US Lenders within 30 days of (i) a material increase in the liabilities of any of the Pension Plans, (ii) the establishment of a new registered pension plan, and (iii) commencing payment of contributions to a Pension Plan to which it had not previously been contributing.

(c) Each US Borrower shall, and shall cause each of its ERISA Affiliates, to: (i) maintain each Pension Plan in compliance in all material respects with the applicable pension plan texts, funding agreements and the applicable provisions of ERISA, the U.S. Tax Code and other US federal and state law; (ii) cause each Pension Plan which is qualified under Section 401(a) of the U.S. Tax Code to maintain such qualifications; (iii) not terminate any Pension Plans so as to incur any material liability to the Pension Benefit Guaranty Corporation; (iv) not allow or suffer to exist any prohibited transaction involving any Pension Plans or any trust created thereunder which would subject a US Borrower, or an ERISA Affiliate, to a material tax or penalty or other liability on prohibited transactions imposed under Section 4975 of the U.S. Tax Code or ERISA; (v) make all required contributions to the Pension Plans which it is obligated to pay under Section 302 of ERISA, Section 412 of the U.S. Tax Code or the terms of the Pension Plans; (vi) not allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any Pension Plan; or (vii) allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any Pension Plan that is a single employer plan, which termination could result in any material liability to the Pension Benefit Guaranty Corporation.

8.16 Costs and Expenses

Each US Borrower shall pay to US Lenders, Tranche B Agent and Agent on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, US Lenders', Tranche B Agent's and Agent's rights in the Collateral, this Agreement and the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including PPSA or UCC financing statements and other similar filing and recording fees and taxes, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) all insurance premiums, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, if any, and the Payment Accounts, together with Agent's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the Liens of Agent, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against US Lenders, Tranche B Agent and/or Agent arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (g) (x) all out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by US Lenders, Tranche B Agent and/or Agent during the course of periodic audits, inspections, appraisals, valuations and field examinations of the Collateral and US Borrowers' operations, plus (y) a per diem charge at the rate of US\$800 per person per day for Agent's examiners in the field and office; and (h) the reasonable fees and disbursements of counsel (including legal assistants) to US Lenders, Tranche B Agent and Agent in connection with any of the foregoing.

8.17 Further Assurances

At the request of Tranche B Agent or the Agent at any time and from time to time, each US Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the Liens and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Agent and Tranche B Agent may at any time and from time to time request a certificate from an officer of a US Borrower representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Agent or Tranche B Agent, US Lenders shall cease to make any further Loans or provide any further Letter of Credit Accommodations until Agent or Tranche B Agent, as applicable, has received such certificate and, in addition, US Lenders have determined that such conditions are satisfied. Where permitted by law, each US Borrower hereby authorizes Agent to execute and file one or more PPSA, UCC or other financing statements or notices signed only by Agent or its representatives.

8.18 EBITDA

Each US Borrower shall ensure that EBITDA for SMTC Corporation and its Subsidiaries, calculated at the end of each fiscal quarter on a consolidated rolling four (4) fiscal quarter basis and in accordance with GAAP, shall not be less than the amounts set forth in the table below:

<u>End of Fiscal Quarter</u>	<u>TTM EBITDA</u>
September 2007	US\$11,000,000
December 2007	US\$11,000,000
March 2008	US\$11,000,000
June 2008	US\$11,000,000
September 2008	US\$11,250,000
December 2008	US\$11,250,000
March 2009	US\$11,250,000
June 2009	US\$11,250,000
September 2009	US\$11,500,000
December 2009	US\$11,500,000
March 2010	US\$11,500,000
June 2010	US\$11,500,000
September 2010	US\$12,000,000
December 2010	US\$12,000,000
March 2011	US\$12,000,000
June 2011	US\$12,000,000
September 2011	US\$12,000,000
December 2011	US\$12,000,000
March 2012	US\$12,000,000
Thereafter	US\$12,000,000

For purposes of calculating the EBITDA covenant, the following amounts shall be used in respect of the applicable fiscal quarter:

<u>Fiscal Quarter Ending</u>	<u>EBITDA</u>
December 2006	US\$4,485,000
March 2007	US\$4,399,000
June 2007	US\$3,983,000

8.19 Inactive Subsidiaries

Each US Borrower shall not, without the prior written consent of Required Lenders permit, or allow any of its Subsidiaries or affiliates to permit, any Inactive Subsidiary to (a) acquire any assets (other than intercompany receivables), (b) incur any liabilities (other than intercompany liabilities) or (c) engage in any material business activities.

8.20 End of Fiscal Years; Fiscal Quarters

(a) For financial reporting purposes, each US Borrower shall cause its, and each of its Subsidiaries' and affiliates', fiscal year to end on December 31 of each year (being the fiscal year end of SMTC Corporation).

(b) For financial reporting purposes, each US Borrower shall cause its, and each of its Subsidiaries' or affiliates', 13 week fiscal periods to end on the same dates of each fiscal period end of SMTC Corporation.

8.21 Change in Business

Each US Borrower shall not engage in any business other than the business of such US Borrower on the Closing Date and any business reasonably related, ancillary or complimentary to the business in which such US Borrower is engaged on the Closing Date.

8.22 Fixed Charge Coverage Ratio

Each US Borrower shall ensure that SMTC Corporation and its Subsidiaries maintain a Fixed Charge Coverage Ratio of not less than the ratios set forth in the table below calculated at the end of each fiscal quarter on a consolidated rolling four (4) fiscal quarter basis:

<u>End of Fiscal Quarter</u>	<u>Minimum Fixed Charge Coverage Ratio</u>
September 2007	1.20
December 2007	1.20
March 2008	1.20
June 2008	1.20
September 2008	1.20
December 2008	1.20
March 2009	1.20
June 2009	1.25
September 2009	1.25
December 2009	1.25
March 2010	1.25
June 2010	1.25
September 2010	1.25
December 2010	1.25
March 2011	1.25
June 2011	1.25
September 2011	1.25
December 2011	1.25
March 2012	1.25
Thereafter	1.25

For purposes of calculating the Fixed Charge Coverage Ratio, the following amounts shall be used in respect of the applicable fiscal quarter:

<u>Fiscal Quarter Ending</u>	<u>Interest Expense</u>	<u>Scheduled Principal Payments</u>	<u>Capital Expenditures</u>	<u>EBITDA</u>
December 2006	US\$1,995,000	US\$768,000	US\$534,000	US\$4,485,000
March 2007	US\$1,682,000	US\$768,000	US\$309,000	US\$4,399,000
June 2007	US\$1,582,000	US\$768,000	US\$1,162,000	US\$3,983,000

8.23 Maximum Total Debt

Each US Borrower shall ensure that the outstanding Total Debt of SMTC Corporation and its Subsidiaries under this Agreement, the Canadian Loan Agreement and Capital Leases shall not exceed the applicable number set forth in the table below times trailing twelve (12) month EBITDA of SMTC Corporation and its Subsidiaries calculated at the end of each month on a consolidated basis in accordance with GAAP:

<u>End of Month</u>	<u>Maximum Total Debt</u>
September 2007	3.50x
October 2007	3.75x
November 2007	3.50x
December 2007	3.50x
January 2008	3.75x
February 2008	3.50x
March 2008	3.50x
April 2008	3.75x
May 2008	3.50x
June 2008	3.50x
July 2008	3.50x
August 2008	3.25x
September 2008	3.25x
October 2008	3.50x
November 2008	3.25x
December 2008	3.25x
January 2009	3.50x

February 2009	3.25x
March 2009	3.25x
April 2009	3.50x
May 2009	3.25x
June 2009	3.25x
July 2009	3.25x
August 2009	3.00x
September 2009	3.00x
October 2009	3.25x
November 2009	3.00x
December 2009	3.00x
January 2010	3.25x
February 2010	3.00x
March 2010	3.00x
April 2010	3.25x
May 2010	3.00x
June 2010	3.00x
July 2010	3.00x
August 2010	2.75x
September 2010	2.75x
October 2010	3.00x
November 2010	2.75x
December 2010	2.75x
January 2011	3.00x
February 2011	2.75x
March 2011	2.75x
April 2011	3.00x
May 2011	2.75x
June 2011	2.75x
July 2011	3.00x
August 2011	2.75x
September 2011	2.75x
October 2011	3.00x
November 2011	2.75x
December 2011	2.75x
January 2012	3.00x
February 2012	2.75x
March 2012	2.75x
April 2012	3.00x
May 2012	2.75x
June 2012	2.75x
July 2012	3.00x
August 2012	2.75x

For purposes of calculating the Maximum Total Debt covenant, the following amounts of EBITDA shall be used in respect of the applicable fiscal quarter:

Fiscal Quarter Ending	EBITDA
December 2006	US\$4,485,000
March 2007	US\$4,399,000
June 2007	US\$3,983,000

On the first test date, the Chief Financial Officer shall certify and provide a certificate which shall provide the monthly EBITDA from September 2006 until July 2007.

8.24 Maximum Capital Expenditures

Each US Borrower shall ensure that SMTC Corporation and its Subsidiaries do not, directly or indirectly, make or commit to make, whether through purchase, capital leases or otherwise, Capital Expenditures in an aggregate amount in excess of the amounts set forth below calculated on a fiscal year basis at the end of each fiscal year in accordance with GAAP. Fifty (50%) percent of the unused portion of the Capital Expenditure amount set forth below may be carried over for expenditure in the next succeeding fiscal year, however any Capital Expenditure made pursuant to this sentence during any fiscal year shall be deemed made first in respect of amounts permitted for such fiscal year as provided below and second in respect of amounts carried over from the prior fiscal year.

End of Fiscal Year	Maximum Capital Expenditure for Fiscal Year
December 2007	US\$4,000,000
December 2008	US\$5,000,000
December 2009	US\$5,000,000
December 2010	US\$5,000,000
December 2011	US\$5,000,000
Thereafter	US\$5,000,000

For purposes of calculating the Maximum Capital Expenditures, the following amounts of Capital Expenditures shall be used in respect of the applicable fiscal quarter:

Fiscal Quarter Ending	Capital Expenditures
March 2007	US\$309,000
June 2007	US\$1,162,000

8.25 After Acquired Real Property

If US Borrowers hereafter acquire any Real Property, fixtures or any other property with a fair market value in an amount equal to or greater than US\$100,000 (or if a Default or Event of Default exists, then regardless of the fair market value of such assets), without limiting any other rights of Agent or Tranche B Agent, or duties or obligations of US Borrowers, promptly upon Agent's or Tranche B Agent's request, US Borrowers shall execute and deliver to Agent a mortgage, deed of trust or deed to secure debt, as Required Lenders may determine, in form and substance satisfactory to Required Lenders and in form appropriate for recording in the real estate records of the jurisdiction in which such Real Property or other property is located granting to Agent a first and only lien and mortgage on and security interest in such Real Property, fixtures or other property (except as US Borrowers would otherwise be permitted to incur hereunder) and such other agreements, documents and instruments as Required Lenders may require in connection therewith.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES

9.1 Events of Default

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

(a) a US Borrower (i) fails to pay when due any of the Obligations or (ii) fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements and, with respect to the covenants in Sections 8.3, 8.6, 8.13, 8.14, 8.15, 8.17 and 8.25 of this Agreement, such failure continues for a period of three (3) Business Days after written notice thereof has been provided by Agent to the applicable US Borrower;

(b) any representation, warranty or statement of fact made by a US Borrower to US Lenders, Tranche B Agent and/or Agent in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;

(c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of US Lenders, Tranche B Agent and/or Agent and, except in relation to the payment of monetary obligations pursuant to any guarantee, endorsement or other agreement and the revocation or termination thereof by any such Obligor, such failure continues for a period of three (3) Business Days after written notice thereof has been provided by Agent to such Obligor;

(d) any judgment for the payment of money is rendered against a US Borrower or any Obligor in excess of US\$100,000 in any one case or in excess of US\$250,000 in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against a US Borrower or any Obligor or any of their assets;

(e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or a US Borrower or any Obligor, which is a partnership, limited liability company, limited partnership, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business;

(f) a US Borrower or any Obligor is not Solvent, makes an assignment for the benefit of creditors, proposes to make, makes or sends notice of a bulk sale or calls a meeting of its creditors or principal creditors;

(g) a petition, case or proceeding under the Bankruptcy Code or any bankruptcy laws of the US or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed or commenced against a US Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or a US Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;

(h) a petition, case or proceeding under the Bankruptcy Code or any bankruptcy laws of the US or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed or commenced by a US Borrower or any Obligor for all or any part of its property including if a US Borrower or any Obligor shall:

- (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or of all or a substantial part of its property and assets;
- (ii) be unable, or admit in writing its inability, to pay its debts as they mature, or commit any other act of bankruptcy;
- (iii) make a general assignment for the benefit of creditors;
- (iv) file a voluntary petition or assignment in bankruptcy or a proposal seeking a reorganization, compromise, moratorium or arrangement with its creditors;
- (v) take advantage of any insolvency or other similar law pertaining to arrangements, moratoriums, compromises or reorganizations, or admit the material allegations of a petition or application filed in respect of it in any bankruptcy, reorganization or insolvency proceeding; or

(vi) take any corporate action for the purpose of effecting any of the foregoing;

(i) any default by a US Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than US Lenders, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favor of any person other than US Lenders, in any case in an amount in excess of US\$100,000, which default continues for more than the applicable cure period, if any, with respect thereto, or any default (other than a default of a non-material nature as determined by Agent, acting reasonably) by a US Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than US Lenders, which default continues for more than the applicable cure period, if any, with respect thereto;

(j) any change in Control of a US Borrower;

(k) the indictment or threatened indictment of a US Borrower or any Obligor under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings against a US Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of a US Borrower or such Obligor;

(l) the occurrence of a Material Adverse Effect;

(m) there shall be an event of default (howsoever defined) under any of the other Financing Agreements or Canadian Financing Agreements;

(n) there shall be a breach of or failure (except a breach or failure of a non-material nature as determined by Required Lenders, acting reasonably) to comply with the provisions of any intercreditor agreement or subordination agreement with respect to a US Borrower or any Obligor by any party thereto other than Agent, Tranche B Agent or US Lenders;

(o) an ERISA Event shall occur which results in or could reasonably be expected to result in liability of a US Borrower in an aggregate amount in excess of US\$50,000; or

(p) any material provision hereof or of any of the other Financing Agreements shall for any reason cease to be valid, binding and enforceable with respect to any party hereto or thereto (other than Agent, Tranche B Agent and US Lenders) in accordance with its terms, or any such party shall challenge the enforceability hereof or thereof, or shall assert in writing, or take any action or fail to take any action based on the assertion that any material provision hereof or of any of the other Financing Agreements has ceased to be or is otherwise not valid, binding or enforceable in accordance with its terms.

9.2 Remedies

(a) At any time an Event of Default exists or has occurred and is continuing, US Lenders, Tranche B Agent and Agent shall have all rights and remedies provided to them in this Agreement and the other Financing Agreements, the PPSA, UCC and other applicable law, all of which rights and remedies may be exercised without notice to or consent by US Borrowers or any Obligor, except as such notice or consent is expressly provided for hereunder or required by

applicable law. All rights, remedies and powers granted to US Lenders, Tranche B Agent and Agent hereunder, under any of the other Financing Agreements, the PPSA, UCC or other applicable law, are cumulative, not exclusive and enforceable, in US Lender's, Tranche B Agent's or Agent's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by a US Borrower of this Agreement or any of the other Financing Agreements. Agent may, at any time or times, proceed directly against any US Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral.

(b) Without limiting the foregoing and except as provided in paragraph (g) below, at any time an Event of Default exists or has occurred and is continuing, Agent may, in its discretion and without limitation, (i) accelerate the payment of all Obligations (other than Hedging Liabilities) and demand immediate payment thereof to Agent (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h), all Obligations (other than Hedging Liabilities) shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of US Borrowers, (iii) require US Borrowers, at US Borrowers' expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent, (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of US Lenders, Tranche B Agent and/or Agent or elsewhere) at such prices or terms as Agent may determine, at its discretion, for cash, upon credit or for future delivery, with US Lenders, Tranche B Agent and/or Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of US Borrowers, which right or equity of redemption is hereby expressly waived and released by each US Borrower, (vii) borrow money and use the Collateral directly or indirectly in carrying on US Borrowers' businesses or as security for loans or advances for any such purposes, (viii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with US Borrowers, debtors of US Borrowers, sureties and others as Agent may see fit without prejudice to the liability of US Borrowers or Agent's right to hold and realize the security interest created under any Financing Agreement, and/or (ix) terminate this Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, ten (10) days prior notice (or such longer notice as required by applicable law) by Agent to US Borrowers designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and each US Borrower waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, each US Borrower waives the posting of any bond which might otherwise be required. At any time an Event of Default exists or has occurred and is continuing, upon Agent's request, each US Borrower will

furnish cash collateral to Agent for the Letter of Credit Accommodations. Such cash collateral shall be in the amount equal to one hundred and ten (110%) percent of the amount of the Letter of Credit Accommodations plus the amount of any fees and expenses payable in connection therewith through the end of the latest expiration date of such Letter of Credit Accommodations.

(c) Agent shall apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as set out in Section 5.4, whether or not then due. Each US Borrower shall remain liable to Agent, Tranche B Agent and US Lenders for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of correction or enforcement including legal costs and expenses.

(d) Without limiting the foregoing, upon the occurrence of a Default or an Event of Default, Agent, Tranche B Agent and US Lenders, as applicable, may, at their option, without notice, (i) cease making Loans or arranging Letter of Credit Accommodations or reduce the lending formulas or amounts of Loans and Letter of Credit Accommodations available to US Borrowers and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Agent, Tranche B Agent and US Lenders to US Borrowers.

(e) Agent may appoint, remove and reappoint any person or persons, including an employee or agent of US Lenders, Tranche B Agent and/or Agent to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of US Borrowers and not of US Lenders, Tranche B Agent or Agent, and US Lenders, Tranche B Agent and Agent shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Agent, all money received by such Receiver shall be received in trust for and paid to Agent to be applied in accordance with Section 5.4. Such Receiver shall have all of the powers and rights of US Lenders, Tranche B Agent and/or Agent described in this Section 9.2. Agent may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.

(f) Each US Borrower shall pay all costs, charges and expenses incurred by US Lenders, Tranche B Agent and Agent or any Receiver or any nominee or agent of US Lenders, Tranche B Agent or Agent, whether directly or for services rendered (including reasonable solicitor's costs on a solicitor and his own client basis, auditor's costs, other reasonable legal expenses and Receiver remuneration) in enforcing this Agreement or any other Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

(g) Notwithstanding anything to the contrary contained herein, except as Tranche B Agent shall otherwise agree, Agent shall demand payment of the Obligations and commence and pursue such other Enforcement Actions as Agent in good faith deems appropriate within ninety (90) days (as such period shall be extended by the number of days Agent is stayed from commencing and pursuing Enforcement Actions pursuant to any insolvency or bankruptcy proceeding including under the Bankruptcy Code or any other similar proceeding in any jurisdiction or an order or stay of any court or governmental authority) after the date of the receipt by Agent of a Tranche B Loan Action Default Notice; provided, that:

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- (i) subject to sub-paragraph (ii) through (viii) below and Section 9.2(j), Agent shall demand payment of the Obligations in respect of the Tranche B Loan and pursue such other Enforcement Actions as Tranche B Agent may reasonably specify against or relating to the Tranche B Loan Priority Collateral, including the Mexican Obligor Collateral, as Tranche B Agent in good faith deems appropriate under the circumstances within ten (10) days (as such period shall be extended by the number of days Agent is stayed from commencing and pursuing Enforcement Actions pursuant to any insolvency or bankruptcy proceeding including under the Bankruptcy Code or any other similar proceeding in any jurisdiction or an order or stay of any court or governmental authority) after the date of the receipt of by Agent of the Tranche B Loan Action Default Notice specifying such action;
 - (ii) such Tranche B Loan Action Default has not been waived or cured;
 - (iii) in the good faith determination of Agent, taking an Enforcement Action is permitted under the terms of this Agreement and applicable law;
 - (iv) taking an Enforcement Action shall not result in any liability of Agent, Tranche B Agent or US Lenders or their respective affiliates to US Borrowers or any other person;
 - (v) Agent shall be entitled to all of the benefits of Sections 12.2, 12.3 and 12.5 hereof;
 - (vi) Agent shall not be required to take an Enforcement Action within the ninety (90) day period provided above (or the ten (10) day period as is applicable in the case of a Tranche B Loan Action Default Notice specifying an Enforcement Action against or relating to the Tranche B Loan Priority Collateral) so long as Agent shall, at its option, either (A) appoint Tranche B Agent, as an agent of Agent for purposes of exercising the rights of Agent to take an Enforcement Action or (B) resign as Agent and appoint Tranche B Agent as the new Agent, in each case, subject to the terms of this Agreement (other than the forty-five (45) day notice period in Section 12.12). Tranche B Agent, as the new Agent appointed by Agent pursuant to this Section 9.2(g)(vi), agrees to indemnify Agent (to the extent not reimbursed by US Borrowers hereunder and without limiting any obligations of US Borrowers hereunder) for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent to the extent caused by the gross negligence or willful misconduct of Tranche B Agent as the new Agent hereunder as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement; and

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- (vii) Agent shall not be required to continue any Enforcement Action so long as Agent shall, at its option, either (A) appoint Tranche B Agent, as an agent of Agent for purposes of exercising the rights of Agent to take an Enforcement Action or (B) resign as Agent and appoint Tranche B Agent as the new Agent, in each case, subject to the terms of this Agreement (other than the forty-five (45) day notice period in Section 12.12). Tranche B Agent, as the new Agent appointed by Agent pursuant to this Section 9.2(g)(vii), agrees to indemnify Agent (to the extent not reimbursed by US Borrowers hereunder and without limiting any obligations of US Borrowers hereunder) for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent to the extent caused by the gross negligence or willful misconduct of Tranche B Agent as the new Agent hereunder as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

(h) Notwithstanding anything to the contrary contained herein but subject to the rights of Agent pursuant to Section 9.2(i) and except as Tranche B Agent shall otherwise agree, Agent shall not commence and pursue Enforcement Actions against the Tranche B Loan Priority Collateral for ninety (90) days from the date of the occurrence of an Event of Default.

(i) Rights of Access and Use.

- (i) In the event that Tranche B Agent or Agent shall acquire control or possession of any of the Tranche B Loan Priority Collateral or shall, through the exercise of remedies under this Agreement, sell any of the Tranche B Loan Priority Collateral to any third party (a “**Third Party Purchaser**”) Tranche B Agent shall permit Agent (or require as a condition of such sale to the Third Party Purchaser that the Third Party Purchaser agree to permit Agent), at its option and in accordance with applicable law:
- (A) to enter any or all of the Tranche B Loan Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of real property during normal business hours in order to inspect, remove or take any action with respect to the Revolving Loan Priority Collateral or to enforce Agent’s rights with respect thereto, including the examination and removal of Revolving Loan Priority Collateral and the examination and duplication of the books and records of any Obligor related to the Revolving Loan Priority Collateral or to otherwise handle, deliver, ship, transport, deal with or dispose of any Revolving Loan Priority Collateral, such right to include the right to conduct one or more public or private sales or auctions thereon; and

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- (B) use any of the Tranche B Loan Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of equipment (including computers or other data processing equipment related to the storage or processing of records, documents or files pertaining to the Revolving Loan Priority Collateral) to handle, deal with or dispose of any Revolving Loan Priority Collateral pursuant to the rights of Agent and Revolving Lenders as set forth in this Agreement, the Uniform Commercial Code of any applicable jurisdiction and other applicable law. Tranche B Agent or any Tranche B Lender shall not have any responsibility or liability for the acts or omissions of Agent or Revolving Lender, and Agent and Revolving Lender shall not have any responsibility or liability for the acts or omissions of Tranche B Agent or any Tranche B Lender, in each case arising in connection with such other's use and/or occupancy of any of the Tranche B Loan Priority Collateral.
- (ii) The rights of Agent and Revolving Lender as set forth in Section 9.2(i)(i)(A) or (B) above as to the Tranche B Loan Priority Collateral shall be irrevocable and shall continue at Agent's option for a period of one hundred twenty (120) days from the date that Tranche B Agent or Agent acquires possession or control of any of the Tranche B Loan Priority Collateral:
- (A) except, that such one hundred twenty (120) day period shall be reduced by the number of days, if any, that Agent has entered or used the Tranche B Loan Priority Collateral as described in Section 9.2(i)(i)(A) or (B) above, to the extent prior to the date that Agent or Tranche B Agent has control or possession of such Tranche B Loan Priority Collateral, or has sold such Tranche B Loan Priority Collateral to a Third Party Purchaser; and
- (B) provided, that if Agent or Tranche B Agent has entered into an agreement for the sale of all or substantially all of the Tranche B Loan Priority Collateral consisting of equipment and real property in a *bona fide* arm's length transaction with an unaffiliated person, the rights of Agent set forth in Section 9.2(i)(i)(A) and (B) above shall only continue until the later of the date thirty (30) days after the date Agent enters into or receives written notice from Tranche B Agent of such agreement, together with a copy thereof, as duly authorized, executed and delivered by the parties thereto or the date that the proposed purchaser shall require as a condition of such sale that possession of the equipment and real property be given by Agent or Tranche B Agent to such purchaser. In connection with any such sale, Agent and Tranche B Agent shall use commercially reasonable efforts to cause such purchaser to not require as a condition of the sale that possession of the equipment and real property be given by Agent or Tranche B Agent to such

purchaser prior to the end of the one hundred twenty (120) day period provided for above or if such period is not acceptable to the purchaser, then the longest period equal to or greater than the thirty (30) day period provided for above which may be acceptable (provided that such efforts by Agent and/or Tranche B Agent shall not be required if in the good faith determination of Tranche B Agent such efforts will result in an adverse change in the terms of the proposed sale or have a reasonable likelihood of causing the sale not to occur). The time periods set forth in this Section 9.2(i) shall be tolled during the pendency of any proceeding of US Borrowers or Obligor under the Bankruptcy Code or other proceedings pursuant to which both Agent and Tranche B Agent are effectively stayed from enforcing their rights against the Collateral. In no event shall Tranche B Agent take any action to interfere, limit or restrict the rights of Agent or Revolving Lender or the exercise of such rights by Agent or Revolving Lender to have access to or to use any of such Tranche B Loan Priority Collateral under such possession or control pursuant to Section 9.2(i) prior to the expiration of such periods.

(j) Non-Exclusive License to Use Intellectual Property. In addition to and not in limitation of the provisions of Section 9.2(i) above for the purpose of enabling Agent and Revolving Lender to exercise rights and remedies at such time as Agent shall be lawfully entitled to exercise such rights and remedies, (a) subject to the time periods set forth in Section 9.2(i) and the provisions of Section 9.2(i), Tranche B Agent, on behalf of Tranche B Lenders, hereby gives its written consent (given without any representation, warranty or obligation whatsoever) to any grant by US Borrowers and Obligors to Agent and Revolving Lender of a non-exclusive royalty-free license to use any Intellectual Property that is deemed necessary by Agent and Revolving Lender to sell, lease or otherwise dispose of or realize upon any Revolving Loan Priority Collateral, and (b) to the extent that Tranche B Agent has become the owner of any Intellectual Property of any US Borrower or Obligor through the exercise of remedies and to the extent permitted by the terms of such Intellectual Property, Tranche B Agent, on behalf of Tranche B Lenders, hereby grants to Agent, for itself and the benefit of Revolving Lender, an irrevocable, non-exclusive royalty-free license (given without any representation, warranty or obligation whatsoever) to use any such Intellectual Property that is necessary to sell, lease or otherwise dispose of or realize upon any Revolving Loan Priority Collateral. The license granted under this Section 9.2(j) shall continue for the period of one hundred twenty (120) days from the date Tranche B Agent becomes the owner of the Intellectual Property (the “**Initial License Period**”). Thereafter, such Initial License Period shall be continue uninterrupted so long as Tranche B Agent continues to own the Intellectual Property. If, at any time, Tranche B Agent sells or transfers the Intellectual Property, the license shall continue for the Initial License Period; except that with respect to any inventory owned and in transit to US Borrowers prior to the commencement of the Initial License Period, which in-transit inventory is received by US Borrowers and included in the Borrowing Base during the Initial License Period, then, with respect to such inventory, the Initial License Period shall be extended for a period of sixty (60) days.

(k) Duties of Agent in Possession. Agent and Revolving Lender hereby acknowledge that, during the period any Tranche B Loan Priority Collateral shall be under control or possession of Tranche B Agent, Tranche B Agent shall not be obligated to take any action to protect or to procure insurance with respect to any Revolving Loan Priority Collateral that may be located on or in the Tranche B Loan Priority Collateral, it being understood that the Tranche B Agent shall have no responsibility for loss or damage to the Revolving Loan Priority Collateral (other than as a result of the gross negligence or willful misconduct of the Tranche B Agent, Tranche B Lenders or their agents, as determined by a final non-appealable judgment of a court of competent jurisdiction) and that all risk of loss or damage to the Revolving Loan Priority Collateral shall remain with Agent and Revolving Lender; provided that to the extent insurance obtained by Tranche B Agent provides coverage for risks relating to access to or use of the Revolving Loan Priority Collateral, Agent will be made an additional named insured thereunder.

(l) Payments by Agent. During the actual occupation and control by Agent, its agents or representatives, of the real property constituting Tranche B Loan Priority Collateral during the access and use period permitted by Section 9.2(i) above, Agent shall be (a) obligated to pay to Tranche B Agent all utilities, taxes and all other maintenance and operating costs of such real property during any such period of actual occupation and control by Agent, (b) obligated to maintain insurance for such real property, substantially similar to the insurance maintained by US Borrowers or any Obligor on such real property, naming Tranche B Agent as mortgagee, loss payee and additional insured, if such insurance is not otherwise in effect and (c) obligated to repair at its expense any physical damage to such real property resulting from any act or omission of Agent or its agents or representatives pursuant to such access, occupancy, use or control of such equipment or real property, and to leave the premises in a condition substantially similar to the condition of such premises prior to the date of the commencement of the use thereof by Agent.

(m) Indemnification by Agent and Revolving Lender. Agent and Revolving Lender shall indemnify and hold harmless Tranche B Agent and any Third Party Purchaser from and against (a) any loss, liability, claim, damage or expense (including fees and expenses of legal counsel) arising out of any claim asserted by any third party as a result of any acts or omissions by Agent, or any of its agents or representatives, in connection with the exercise by Agent of the rights of access set forth in Sections 9.2(i) above; except that, Agent and Revolving Lenders shall not have any obligation under this Section 9.2(m) to indemnify Tranche B Agent or any Third Party Purchaser with respect to a matter covered hereby resulting from the gross negligence or willful misconduct of Tranche B Agent or any Third Party Purchaser as determined pursuant to a final, non-appealable judgment of a court of competent jurisdiction, (b) any damage to any Tranche B Loan Priority Collateral (including any damage to real property constituting Tranche B Loan Priority Collateral) caused by any act of Agent or its agents or representatives, and (c) any injury resulting from any release of hazardous materials on such real property or arising in connection with the investigation, removal, clean-up and/or remediation of any hazardous material at such real property caused by the access, occupancy, use or control of such real property by Agent, or any of its agents or representatives. In no event shall Agent or Revolving Lender have any liability to Tranche B Agent or any Third Party Purchaser pursuant to this Section 9.2(m) or otherwise as a result of any condition on or with respect to the Tranche B Loan Priority Collateral existing prior to the date of the exercise by Agent of its rights under Section 9.2(i) (except to the extent of any injury to any person on the real property constituting Tranche B Loan Priority Collateral or damage to any Tranche B Loan

Priority Collateral as a result of such condition that would not have occurred but for the exercise by Agent of its rights of access set forth in Section 9.2(i) above) and Agent or Revolving Lender shall have no duty or liability to maintain the Tranche B Loan Priority Collateral in a condition or manner better than that in which it was maintained prior to the access and/or use thereof by Agent or Revolving Lender.

SECTION 10. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

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

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois without giving effect to principles of conflicts of laws, but excluding any rule of law that would cause the application of the law of any jurisdiction other than the laws of the State of Illinois, except to the extent that the law of another jurisdiction is specified in a Financing Agreement (including the Mexican Security Documents) to be the governing law for that Financing Agreement.

(b) US Borrowers, Agent, Tranche B Agent and US Lenders irrevocably consent and submit to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois and waive any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements (other than the Mexican Security Documents) or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements (other than the Mexican Security Documents) or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that US Lenders, Tranche B Agent and/or Agent shall have the right to bring any action or proceeding against a US Borrower or its property in the courts of any other jurisdiction which US Lenders, Tranche B Agent or Agent deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce their respective rights against a US Borrower or its property).

(c) To the extent permitted by law, each US Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the US mails, or, at Agent's option, by service upon a US Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, applicable US Borrower shall appear in answer to such process, failing which such US Borrower shall be deemed in default and judgment may be entered by Agent against such US Borrower for the amount of the claim and other relief requested.

(d) US BORROWERS, AGENT, TRANCHE B AGENT AND US LENDERS EACH HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. US BORROWERS, TRANCHE B AGENT, AGENT AND US LENDERS EACH HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT US BORROWERS, TRANCHE B AGENT, AGENT OR US LENDERS MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) US Lenders, Tranche B Agent and/or Agent shall not have any liability to US Borrowers (whether in tort, contract, equity or otherwise) for losses suffered by US Borrowers in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement or any other Financing Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on US Lenders, Tranche B Agent and/or Agent that the losses were the result of acts or omissions constituting gross negligence or willful misconduct.

(f) Each US Borrower hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Agent or Tranche B Agent from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Subject to applicable law, each US Borrower waives the posting of any bond otherwise required of Agent or Tranche B Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favor of Agent or Tranche B Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, this Agreement or any other Financing Agreement.

(g) Each US Borrower: (i) certifies that neither Agent, Tranche B Agent or US Lenders nor any representative, agent or attorney acting for or on behalf of Agent, Tranche B Agent or US Lenders has represented, expressly or otherwise, that Agent, Tranche B Agent and US Lenders would not, in the event of litigation, seek to enforce any of the waivers provided for in this Agreement or any of the other Financing Agreements and (ii) acknowledges that in entering into this Agreement and the other Financing Agreements, Agent, Tranche B Agent and US Lenders are relying upon, among other things, the waivers and certifications set forth in this Section 10.1 and elsewhere herein and therein.

10.2 Waiver of Notices

Each US Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial

paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on a US Borrower which Agent may elect to give or shall give at the direction of Required Lenders shall entitle US Borrowers to any other or further notice or demand in the same, similar or other circumstances.

10.3 Amendments and Waivers

(a) Subject to the second sentence of this Section 10.3(a) and 10.3(c), neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by Required Lenders, and as to amendments and modifications (other than with respect to any provision of Section 12), as also signed by an authorized officer of US Borrowers. No amendment, modification, waiver or discharge shall, unless in writing and signed by each US Lender directly affected thereby:

- (i) increase the principal amount of a US Lender's Loans or commitments (which action shall be deemed to affect those US Lenders whose Loans or commitments are increased);
- (ii) reduce the principal of, rate of interest on or fees payable with respect to a US Lender's Obligations;
- (iii) extend any scheduled payment date or final maturity date of the principal amount of any Obligations of a US Lender;
- (iv) waive, forgive, defer, extend or postpone any payment of interest or fees of a US Lender;
- (v) release or permit US Borrowers or any Obligor to sell or otherwise dispose of all the Collateral (which action shall be deemed to directly affect all US Lenders); and
- (vi) amend or waive this second sentence of Section 10.3(a).

(b) Agent, Tranche B Agent and US Lenders shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its or their rights, powers and/or remedies unless such waiver shall be in writing and signed as provided herein. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent, Tranche B Agent or any US Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent, Tranche B Agent or any US Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

(c) The consent of Agent or Tranche B Agent, as applicable, shall be required for any amendment, waiver or consent affecting the rights or duties of Agent or Tranche B Agent hereunder or under any of the other Financing Agreements, in addition to the consent of Required Lenders otherwise required by this Section 10.3 and the exercise by Agent of any of its rights hereunder with respect to Availability Reserves or Eligible Accounts or Eligible Inventory shall not be deemed an amendment to the advance rates provided for in this Section 10.3.

10.4 Waiver of Counterclaim

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

10.5 Indemnification

Each US Borrower shall jointly and severally indemnify and hold US Lenders, Tranche B Agent and Agent, and their respective directors, agents, employees and counsel (each, an “**Indemnified Person**”), harmless from and against any and all losses, claims, damages, liabilities, costs or expenses (including attorneys’ fees and expenses) imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel; provided, however, that a US Borrower shall not be liable for any indemnification to an Indemnified Person to the extent such losses, claims, damages, liabilities, costs or expenses results from that Indemnified Person’s gross negligence or willful misconduct as determined by a final and non-appealable judgment or court order binding on such Indemnified Person (but without limiting the obligations of US Borrowers as to any other Indemnified Person). To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, US Borrowers shall pay the maximum portion which it is permitted to pay under applicable law to the Indemnified Persons in satisfaction of indemnified matters under this Section. To the extent permitted by applicable law, US Borrowers shall not assert, and US Borrowers hereby waive, any claim against any Indemnified Person, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any of the other Financing Agreements or any undertaking or transaction contemplated hereby. All amounts due under this Section shall be payable upon demand. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

SECTION 11. TERM OF AGREEMENT; MISCELLANEOUS

11.1 Term

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the Maturity Date. Upon the Maturity Date or any other effective date of termination of the Financing Agreements, US Borrowers shall pay to Agent, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Agent in such amounts as Agent

determines is necessary to secure US Lenders, Tranche B Agent and Agent from loss, cost, damage or expense, including legal fees and expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which US Lenders, Tranche B Agent and/or Agent has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in US Dollars to such bank account of Agent, as Agent may, in its discretion, designate in writing to US Borrowers for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by US Borrowers to the bank account designated by Agent are received in such bank account later than 12:00 noon, Chicago time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge a US Borrower of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Agent's continuing Lien in the Collateral and the rights and remedies of US Lenders, Tranche B Agent and/or Agent hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid. Accordingly, each US Borrower waives any rights it may have under the UCC to demand the filing of termination statements with respect to the Collateral and Agent shall not be required to send such termination statements to any US Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid and satisfied in full in immediately available funds.

11.2 Notices

All notices, requests and demands hereunder shall be in writing and (a) made to US Lenders, Tranche B Agent and Agent at their respective addresses set forth below and to US Borrowers at their respective chief executive offices set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by facsimile transmission or electronic transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by registered mail, return receipt requested, five (5) days after mailing.

11.3 Partial Invalidity

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

11.4 Successors and Assignment

(a) This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns, except that US Borrowers may

not assign their respective rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Agent, Tranche B Agent and US Lenders.

(b) Revolving Lender may sell, assign, sub-participate or otherwise transfer its rights under this Agreement and the other Financing Agreements to any Person and such Person shall have, to the extent of such sale, assignment, sub-participation and transfer, the same rights and benefits as it would have if it were Revolving Lender hereunder except as provided by the terms of such sale, assignment, sub-participation and transfer; provided that (i) Revolving Lender shall not sell, assign, sub-participate or otherwise transfer such rights without the prior written consent of Agent and Tranche B Agent (which consent may not be unreasonably withheld or delayed and which consent shall not be required in connection with any sale, assignment, sub-participation or transfer to an affiliate of Revolving Lender) and (ii) prior notice thereof is provided to US Borrowers (except with respect to sub-participations).

(c) Each Tranche B Lender may sell, assign, sub-participate or otherwise transfer its rights under this Agreement and the other Financing Agreements to any Person and such Person shall have, to the extent of such sale, assignment, sub-participation and transfer the same rights and benefits as it would have if it were a Tranche B Lender hereunder except as provided by the terms of such sale, assignment, sub-participation or transfer; provided, however, that, (i) a Tranche B Lenders shall not sell or assign such rights without the prior written consent of Agent (which consent may not be unreasonably withheld or delayed and which consent shall not be required in connection with any sale, assignment, sub-participation or transfer to an affiliate of such Tranche B Lender or an Approved Fund) and (ii) prior notice thereof is provided to US Borrowers (except with respect to sales, assignments or transfers to affiliates of Tranche B Lender or an Approved Fund or sub-participations provided that (1) US Borrowers may continue to deal solely and directly with such Tranche B Lender until such notice has been delivered to US Borrowers and (2) the failure of such Tranche B Lender to notify US Borrower of such sale, assignment, sub-participation or transfer shall not affect the legality, validity or binding effect of such sale, assignment, sub-participation or transfer which shall be effective on the date such sale, assignment, sub-participation or transfer is recorded in the Register).

(d) Any US Lender may pledge or grant a security interest in its rights under this Agreement and the Other Financing Agreements to any Person; provided, however, that such pledge or grant of security interest shall not (A) release such US Lender from any of its obligations hereunder or (B) substitute any such pledgee or grantee for such US Lender as a party hereto unless such US Lender complies with Sections 11.4(b) and 11.4(c) above, as applicable.

(e) Agent shall, on behalf of and acting solely for this purpose as the non-fiduciary agent of US Borrowers, maintain a register of the names and addresses of US Lenders and the principal amount (and stated interest thereon) of their respective Loans or commitments (the "**Register**") and US Lenders shall advise Agent accordingly so that Agent can maintain an updated and current Register. In the case of an assignment by a US Lender to any Approved Funds or affiliate (a "**Related Party Assignment**") the assigning US Lender shall maintain a comparable register on behalf of, and acting solely for this purpose as a non-fiduciary agent of, US Borrowers (the "**Related Party Register**"). The entries in the Register (or, in the case of a Related Party Assignment, the Related Party Register) shall be conclusive and binding for all

purposes, absent manifest error, and US Borrowers, Obligors, Agent, Tranche B Agent and US Lenders may treat each Person whose name is recorded in the Register (and any US Lender that makes a Related Party Assignment shall treat each Person whose name is recorded in the Related Party Register) as a US Lender hereunder for all purposes of this Agreement. The Register and Related Party Register shall be available for inspection by US Borrowers and any US Lender at any reasonable time and from time to time upon reasonable prior notice.

(f) An obligation under this Agreement or any other Financing Agreement may be assigned or sold in whole or in part only by registration of such assignment or sale on the Register or Related Party Register. Any assignment or sale of all or part of such Obligations may be effected only by registration of such assignment or sale on the Register (or Related Party Register). Prior to the registration of assignment or sale of any Obligations, Agent and US Borrowers shall treat the Person in whose name such Loan is registered as the owner thereof for the purpose of receiving all payments thereon and for all other purposes, notwithstanding notice to the contrary. In the event that any US Lender sells participations in an Obligation, the selling US Lender shall maintain a register on which it enters the name of all participants in the Obligation (the “**Participant Register**”) and the principal amount (and stated interest thereon) of the portion of the Obligation which is the subject of the participation. An Obligation may be participated in whole or in part only by registration of such participation on the Participant Register. Any participation of such Obligation may be effected only by the registration of such participation on the Participant Register.

(g) US Borrowers agree that each participant shall be entitled to the benefits of Section 2.5 of this Agreement with respect to its participation in any portion of the Loans.

(h) US Borrowers hereby acknowledge that any Tranche B Lender and each of its affiliates and Approved Funds may sell or securitize its share of the Tranche B Loan (a “**Securitization**”) through the pledge of such share as collateral security for loans to such Tranche B Lender or its Affiliates or Approved Funds or through the sale of such share or the issuance of direct or indirect interests in such share, which loans to such Tranche B Lender or its affiliates or Approved Funds] or direct or indirect interests will be rated by Moody’s, S&P or one or more other rating agencies (the “**Rating Agencies**”). US Borrowers agree to cooperate with such Tranche B Lender and its affiliates and Approved Funds to effect the Securitization including by (a) amending this Agreement and the other Financing Agreements and executing such additional documents, as reasonably requested by such Tranche B Lender in connection with the Securitization, provided that (i) any such amendment or additional documentation does not impose material additional costs on US Borrowers, and (ii) any such additional documentation does not materially adversely affect the rights, or increase the obligations, of US Borrowers under the Financing Agreements or change or affect in a manner adverse to US Borrowers the financial terms of the Tranche B Loan, (b) providing such information as may be reasonably requested by such Tranche B Lender in connection with the rating of the Tranche B Loan or the Securitization, and (c) providing in connection with any rating of the Tranche B Loan a certificate (i) agreeing to indemnify such Tranche B Lender and any of its affiliates and Approved Funds, any of the Rating Agencies, or any party providing credit support or otherwise participating in the Securitization (collectively, the “**Securitization Parties**”) for any losses, claims, damages or liabilities (the “**Securitization Liabilities**”) to which such Tranche B Lender or any of its affiliates or Approved Funds, or such Securitization Parties, may become subject insofar as the Securitization Liabilities arise out of or are based upon any untrue statement or

alleged untrue statement of any material fact contained in any Financing Agreement or in any writing delivered by or on behalf of any US Borrower to such Tranche B Lender or Tranche B Agent in connection with any Financing Agreement or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and such indemnity shall survive any transfer by such Tranche B Lender or its successors or assigns of its share of the Tranche B Loan, and (ii) agreeing to reimburse such Tranche B Lender and its Affiliates and Approved Funds, and such Securitization Parties, for any legal or other expenses reasonably incurred by such Persons in connection with defending the Securitization Liabilities.

11.5 Entire Agreement

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

11.6 Headings

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

11.7 Judgment Currency

To the extent permitted by applicable law, the obligations of US Borrowers in respect of any amount due under this Agreement shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, US Borrowers shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of US Borrowers not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

11.8 Interpretative Provisions

(a) All terms used herein which are defined in Article 1, Article 8 or Article 9 of the UCC shall have the meanings given therein unless otherwise defined in this Agreement.

(b) All financial computations hereunder shall be computed unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the financial statements of SMTC Corporation most recently received by Agent and Tranche B Agent prior to the Closing Date. Notwithstanding anything to the contrary contained in GAAP or any interpretations or other pronouncements by the Financial Accounting Standards Board or otherwise, the term “unqualified opinion” as used herein to refer to opinions or reports provided by accountants shall mean an opinion or report that is not only unqualified but also does not include any explanation, supplemental comment or other comment concerning the ability of the applicable person to continue as a going concern or the scope of the audit.

(c) Unless otherwise expressly provided herein, (i) references herein to any agreement, document or instrument shall be deemed to include all subsequent amendments, modifications, supplements, extensions, renewals, restatements or replacements with respect thereto, but only to the extent the same are not prohibited by the terms hereof or of any other Financing Agreement, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, recodifying, supplementing or interpreting the statute or regulation.

(d) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(e) This Agreement and other Financing Agreements may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(f) This Agreement and the other Financing Agreements are the result of negotiations among and have been reviewed by counsel to all parties, and are the products of all parties. Accordingly, this Agreement and the other Financing Agreements shall not be construed against Agent, Tranche B Agent or US Lenders merely because of Agent’s, Tranche B Agent’s or US Lenders’ involvement in their preparation.

11.9 Counterparts

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

11.10 Joint and Several Liability

The liability of each US Borrower to Agent, Tranche B Agent and US Lenders in respect of the Loans and Letter of Credit Accommodations shall be joint and several with that of

the other US Borrowers and shall be absolute and unconditional. Each US Borrower agrees that Agent need not attempt to collect any of the Obligations from the other US Borrowers or Obligors or to realize upon any Collateral but may require any US Borrower to make immediate payment of all Obligations to Agent when due, whether by maturity, acceleration or otherwise or at any time thereafter.

11.11 Tranche B Lenders Purchase Option

(a) **Notice of Exercise.** Upon the occurrence and during the continuance of a Priority Event, Tranche B Lenders shall have the option at any time upon five (5) Business Days' prior written notice to Agent and Revolving Lender to purchase on a *pro rata* basis all of the Obligations (other than those already owing to Tranche B Lenders) from Revolving Lender. Such notice shall be irrevocable.

(b) **Purchase and Sale.** On the date specified by Tranche B Lenders in such notice in Section 11.11(a) (which shall not be less than five (5) Business Days, nor more than twenty (20) days, after the receipt by Agent of the notice from Tranche B Lenders of its election to exercise such option), Revolving Lender shall sell to Tranche B Lenders, and Tranche B Lenders shall purchase on a *pro rata* basis from Revolving Lender, all of the Obligations (other than those already owing to Tranche B Lenders); provided that, Revolving Lender, shall retain all rights to be indemnified or held harmless by US Borrowers and Obligors in accordance with the terms hereof and the other Financing Agreements.

(c) **Payment of Purchase Price.** Upon the date of such purchase and sale, Tranche B Lenders shall:

- (i) pay to Revolving Lender as the purchase price therefor the full amount of all the Obligations (other than those already owing to Tranche B Lenders) then outstanding and unpaid (including principal, interest, fees and expenses, including reasonable attorneys' fees and legal expenses related thereto);
- (ii) furnish cash collateral to Agent and Revolving Lender in a manner and in such amounts as each determines is reasonably necessary to secure them in connection with any issued and outstanding Letter of Credit Accommodations (but not in any event in an amount greater than one hundred ten (110%) percent of the aggregate undrawn face amount of such Letter of Credit Accommodations);
- (iii) agree to reimburse Agent and Revolving Lender for any loss, cost, damage or expense (including reasonable attorneys' fees and legal expenses) in connection with any checks or other payments provisionally credited to the Obligations (other than those already owing to Tranche B Lenders), and/or as to which Agent and Revolving Lender has not yet received final payment and for any other amounts which Agent and Revolving Lender may be required to pay to any bank or other financial institution that is a party to a Deposit Account Control Agreement (and, in each case, all of such payments shall be made without offset, deduction or defense);

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- (iv) agree to reimburse Agent and Revolving Lender in respect of indemnification obligations of US Borrowers and Obligors under this Agreement and the other Financing Agreements as to matters or circumstances known to Tranche B Agent or Tranche B Lenders at the time of the purchase and sale which would reasonably be expected to result in any loss, cost, damage or expense (including reasonably legal fees and expenses) to Agent or Revolving Lender, provided that in no event will Tranche B Lenders have any liability for such amounts in excess of proceeds of Collateral received by Tranche B Lenders;
 - (v) agree to indemnify and hold harmless Agent and Revolving Lender from and against any loss, liability, claim, damage or expense (including reasonable fees and expenses of legal counsel) arising out of any claim asserted by a third party as a direct result of any acts by Tranche B Lender or Tranche B Agent occurring after the date of such purchase ; and
 - (vi) such purchase price and cash collateral shall be remitted by wire transfer in federal funds to such bank account of Agent and Revolving Lender as each may designate in writing to Tranche B Agent for such purpose. Interest shall be calculated to but excluding the Business Day on which such purchase and sale shall occur if the amounts so paid by Tranche B Lenders to the bank accounts designated are received in such bank accounts prior to 1:00 p.m. (New York City time) and interest shall be calculated to and including such Business Day if the amounts so paid by Tranche B Lenders to the bank accounts designated are received in such bank accounts later than 1:00 p.m.(New York City time).

(d) **Limitation on Representations and Warranties.** Such purchase and sale shall be expressly made without representation or warranty of any kind by Agent or Revolving Lender or their respective affiliates as to the Obligations owing to any of them or otherwise and without recourse to Agent or Revolving Lender or their respective affiliates, except that Revolving Lender shall represent and warrant: (i) the amount of its portion of the Obligations being purchased, (ii) that it owns its portion of the Obligations free and clear of any Liens and (iii) it has the right to assign such Obligations and the assignment is duly authorized.

(e) **Notice of Exercise of Remedies.** Agent agrees that it will give Tranche B Agent five (5) Business Days' prior written notice of its intention to commence the exercise of any enforcement right or remedy against the Collateral and/or to accelerate all or any material portion of the Obligations, except that such period of prior written notice may be less (but in any event concurrently with exercise thereof) as to any portion of the Collateral to the extent that in the good faith determination of Agent there are events or circumstances that imminently threaten the value of such Collateral or the ability of Agent to exercise its rights with respect to such Collateral, including the removal, diversion, concealment, abscondment, destruction or waste thereof. In the event that during such five (5) Business Day period (or such lesser period as provided above), Tranche B Lenders shall send to Revolving Lender and Agent the irrevocable notice of Tranche B Lenders' intention to exercise the purchase option given under this Section 11.11, Agent shall not commence any foreclosure or other action to sell or otherwise realize upon the Collateral or accelerate all or any material portion of the Obligations (provided

that continuing collection of accounts receivable and other actions permitted under this Agreement and other Financing Agreements shall not be prohibited hereunder); provided that the purchase and sale with respect to the Obligations provided for herein shall have closed within five (5) Business Days thereafter and Agent and Revolving Lender shall have received payment in full of the Obligations as provided for herein within such five (5) Business Day period.

11.12 Revolving Lender Purchase Option

(a) **Notice of Exercise.** Upon the occurrence and during the continuance of a Priority Event, Revolving Lender shall have the option at any time upon five (5) Business Days' prior written notice to Tranche B Agent and Tranche B Lenders to purchase all of the Obligations (other than those already owing to Revolving Lender) from Tranche B Lenders. Such notice shall be irrevocable.

(b) **Purchase and Sale.** On the date specified by Revolving Lender in such notice in Section 11.12(a) (which shall not be less than five (5) Business Days, nor more than twenty (20) days, after the receipt by Tranche B Agent of the notice from Revolving Lender of its election to exercise such option), Tranche B Lenders shall sell to Revolving Lender, and Revolving Lender shall purchase from Tranche B Lenders, all of the Obligations (other than those already owing to Revolving Lender); provided that, Tranche B Lenders shall retain all rights to be indemnified or held harmless by US Borrowers and Obligors in accordance with the terms hereof and the other Financing Agreements.

(c) **Payment of Purchase Price.** Upon the date of such purchase and sale, Revolving Lender shall:

- (i) pay to Tranche B Lenders as the purchase price therefor the full amount of all the Obligations (other than those already owing to Revolving Lender) then outstanding and unpaid (including principal, interest, fees and expenses, including reasonable attorneys' fees and legal expenses related thereto);
- (ii) agree to reimburse Tranche B Agent and Tranche B Lenders in respect of indemnification obligations of US Borrowers and Obligors under this Agreement and the other Financing Agreements as to matters or circumstances known to Agent or Revolving Lender at the time of the purchase and sale which would reasonably be expected to result in any loss, cost, damage or expense (including reasonable legal fees and expenses) to Tranche B Agent or Tranche B Lenders, provided that in no event will Revolving Lender have any liability for such amounts in excess of proceeds of Collateral received by Revolving Lender;
- (iii) agree to indemnify and hold harmless Tranche B Agent and Tranche B Lenders from and against any loss, liability, claim, damage or expense (including reasonable fees and expenses of legal counsel) arising out of any claim asserted by a third party as a direct result of any acts by Revolving Lender or Agent occurring after the date of such purchase; and

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- (iv) such purchase price shall be remitted by wire transfer in federal funds to such bank account of Tranche B Agent and Tranche B Lenders as each may designate in writing to Agent for such purpose. Interest shall be calculated to but excluding the Business Day on which such purchase and sale shall occur if the amounts so paid by Revolving Lender to the bank accounts designated are received in such bank accounts prior to 1:00 p.m. (New York City time) and interest shall be calculated to and including such Business Day if the amounts so paid by Revolving Lender to the bank accounts designated are received in such bank accounts later than 1:00 p.m. (New York City time).

(d) **Limitation on Representations and Warranties.** Such purchase and sale shall be expressly made without representation or warranty of any kind by Tranche B Agent or Tranche B Lenders or their respective affiliates as to the Obligations owing to any of them or otherwise and without recourse to Tranche B Agent or Tranche B Lenders or their respective affiliates, except that each Tranche B Lender shall represent and warrant: (i) the amount of its portion of the Obligations being purchased, (ii) that it owns its portion of the Obligations free and clear of any Liens and (iii) it has the right to assign such Obligations and the assignment is duly authorized.

11.13 Competing Purchase Options

The first party to provide the other with the irrevocable notice in Section 11.11(a) and 11.12(a) shall have the right to exercise the applicable purchase options set forth in Section 11.11 and 11.12.

11.14 Canadian Obligation Purchase Requirement

Tranche B Lenders and Revolving Lender agree that if Tranche B Lenders or Revolving Lender exercise their purchase option as set forth in Section 11, then the exercising party shall be required to also exercise their similar purchase option under the Canadian Loan Agreement.

SECTION 12. THE AGENT AND THE TRANCHE B AGENT

12.1 Appointment, Powers and Immunities

Each US Lender irrevocably designates, appoints and authorizes Wachovia to act as Agent hereunder and under the other Financing Agreements with such powers as are specifically delegated to Agent by the terms of this Agreement and of the other Financing Agreements, together with such other powers as are reasonably incidental thereto. Each Tranche B Lender irrevocably designates, appoints and authorizes Monroe to act as Tranche B Agent hereunder and under the other Financing Agreements with such powers as are specifically delegated to Tranche B Agent by the terms of this Agreement and of the other Financing Agreements, together with such other powers as are reasonably incidental thereto. Each of Agent and Tranche B Agent (a) shall have no duties or responsibilities except those expressly set forth in this Agreement and in the other Financing Agreements, and shall not by reason of this Agreement or any other

Financing Agreement be a trustee or fiduciary for any US Lender; (b) shall not be responsible to US Lenders for any recitals, statements, representations or warranties contained in this Agreement or in any of the other Financing Agreements, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement or any other Financing Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Financing Agreement or any other document referred to or provided for herein or therein or for any failure by US Borrowers or any Obligor or any other Person to perform any of its obligations hereunder or thereunder; and (c) shall not be responsible to US Lenders for any action taken or omitted to be taken by it hereunder or under any other Financing Agreement or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. Each of Agent and Tranche B Agent may employ agents and attorneys-in-fact and delegate its obligations hereunder to such agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. Each of Agent and Tranche B Agent may deem and treat the payee of any note as the holder thereof for all purposes hereof unless and until the assignment thereof pursuant to an agreement (if and to the extent permitted herein) in form and substance satisfactory to it shall have been delivered to and acknowledged by it.

12.2 Reliance By Agent and Tranche B Agent

Each of Agent and Tranche B Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, teletype, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by it. As to any matters not expressly provided for by this Agreement or any other Financing Agreement, Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by Required Lenders, and such instructions of Required Lenders and any action taken or failure to act pursuant thereto shall be binding on all US Lenders. As to any matters not expressly provided for by this Agreement or any other Financing Agreement, Tranche B Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by Required Tranche B Lenders, and such instructions of Required Tranche B Lenders and any action taken or failure to act pursuant thereto shall be binding on all Tranche B Lenders.

12.3 Events of Default

(a) Each of Agent and Tranche B Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or an Event of Default or other failure of a condition precedent to the Loans and Letter of Credit Accommodations hereunder, unless and until it has received written notice from a Lender, or US Borrower specifying such Default or Event of Default or any unfulfilled condition precedent, and stating that such notice is a "Notice of Default or Failure of Condition". In the event that Agent or Tranche B Agent receives such a Notice of Default or Failure of Condition, Agent or Tranche B Agent, as the case may be, shall give prompt notice thereof to US Lenders. Agent shall (subject to Sections 9.2(d) and 12.7) take

such action with respect to any such Default or Event of Default or failure of condition precedent as it shall be directed by Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action with respect to or by reasons of such Default, Event of Default or failure of condition precedent, as it shall deem advisable in the best interest of US Lenders. Without limiting the foregoing, and notwithstanding the existence or occurrence and continuance of a Default or an Event of Default or any other failure to satisfy any of the conditions precedent set forth in Section 4 of this Agreement to the contrary, Required Lenders may, but shall have no obligation to, continue to make Revolving Loans and issue or cause to be issued Letter of Credit Accommodations from time to time if Required Lenders believe making such Revolving Loans or issuing or causing to be issued such Letter of Credit Accommodations is in the best interests of US Lenders.

(b) Except with the prior written consent of Agent, no Lender may assert or exercise any enforcement right or remedy in respect of the Collateral.

12.4 Agents in their Individual Capacity

With respect to the Loans made and Letter of Credit Accommodations issued or caused to be issued by Wachovia or Monroe and any successor acting as Agent or Tranche B Agent, as the case may be, so long as Wachovia or Monroe, as the case may be, shall be a US Lender hereunder, it shall have the same rights and powers hereunder as any other US Lender and may exercise the same as though it were not acting as Agent or Tranche B Agent, and the term "US Lender" or "US Lenders" shall, unless the context otherwise indicates, include Wachovia or Monroe, as the case may be, in its individual capacity as US Lender hereunder. Each of Wachovia and Monroe (and any successor acting as Agent or Tranche B Agent) and its affiliates may (without having to account therefor to any US Lender) lend money to, make investments in and generally engage in any kind of business with US Borrowers and any Obligor (and any of their respective Subsidiaries or affiliates) as if it were not acting as Agent or Tranche B Agent, and each of Wachovia and Monroe and its affiliates may accept fees and other consideration from US Borrowers, any Obligor and any of their respective Subsidiaries and affiliates for services in connection with this Agreement or otherwise without having to account for the same to US Lenders.

12.5 Indemnification

US Lenders agree to indemnify Agent (to the extent not reimbursed by US Borrowers hereunder and without limiting any obligations of US Borrowers hereunder) ratably, in accordance with their *pro rata* shares of the Loans, for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Financing Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that Agent is obligated to pay hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that, no US Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the party to be indemnified as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

Tranche B Lenders agree to indemnify Tranche B Agent (to the extent not reimbursed by US Borrowers hereunder and without limiting any obligations of US Borrowers hereunder) ratably, in accordance with their *pro rata* shares of the Tranche B Loans and commitments, for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Tranche B Agent arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Financing Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that Tranche B Agent is obligated to pay hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that, no Tranche B Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the party to be indemnified as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

12.6 Non-Reliance on Agent, Tranche B Agent and Other Lenders

Each US Lender agrees that it has, independently and without reliance on Agent, Tranche B Agent or other US Lenders, and based on such documents and information as it has deemed appropriate, made its own credit analysis of US Borrowers and Obligors and has made its own decision to enter into this Agreement and that it will, independently and without reliance upon Agent, Tranche B Agent or any other US Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Financing Agreements and Canadian Financing Agreements. Each of Agent and Tranche B Agent shall not be required to keep itself informed as to the performance or observance by US Borrowers or any Obligor of any term or provision of this Agreement or any of the other Financing Agreements or any other document referred to or provided for herein or therein or to inspect the properties or books of US Borrowers or any Obligor. Each of Agent and Tranche B Agent will use reasonable efforts to provide US Lenders with any information received by it from US Borrowers or any Obligor which is required to be provided to US Lenders or deemed to be requested by US Lenders hereunder and with a copy of any Notice of Default or Failure of Condition received by it from US Borrowers or any US Lender; provided, that, it shall not be liable to any US Lender for any failure to do so, except to the extent that such failure is attributable to its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction.

12.7 Failure to Act

Except for action expressly required of Agent or Tranche B Agent hereunder and under the other Financing Agreements, Agent and Tranche B Agent, as the case may be, shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from US Lenders of their indemnification obligations under Section 12.5 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

12.8 Concerning the Collateral and the Related Financing Agreements

Each US Lender authorizes and directs Agent to enter into this Agreement and the other Financing Agreements. Each Tranche B Lender authorizes and directs Tranche B Agent to enter into this Agreement and the other Financing Agreements. Each US Lender agrees that any action taken by Agent in accordance with the terms of this Agreement or the other Financing Agreements and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all US Lenders. Each Tranche B Lender agrees that any action taken by Tranche B Agent in accordance with the terms of this Agreement or the other Financing Agreements and the exercise by Tranche B Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all Tranche B Lenders.

12.9 Field Audit, Examination Reports and other Information; Disclaimer by Lenders

By signing this Agreement, each US Lender:

(a) is deemed to have requested that Agent furnish such US Lender, promptly after it becomes available, a copy of each field audit or examination report and report with respect to the Borrowing Base received by Agent (each field audit or examination report and report with respect to the Borrowing Base being referred to herein as a “**Report**” and collectively, “**Reports**”);

(b) expressly agrees and acknowledges that Agent (i) does not make any representation or warranty as to the accuracy of any Report, or (ii) shall not be liable for any information contained in any Report;

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or any other party performing any audit or examination will inspect only specific information regarding US Borrowers and will rely significantly upon US Borrowers’ books and records, as well as on representations of Borrower’s personnel; and

(d) agrees to keep all Reports confidential and strictly for its internal use and not to distribute or use any Report in any other manner.

12.10 Collateral Matters

(a) Agent may, at its option, from time to time, at any time on or after an Event of Default and for so long as the same is continuing or upon any other failure of a condition precedent to the Loans and Letter of Credit Accommodations hereunder, make such disbursements and advances (“**Special Agent Advances**”) which Agent, in its sole discretion, (i) deems necessary or desirable either to preserve or protect the Collateral or any portion thereof; or (ii) to enhance the likelihood or maximize the amount of repayment by US Borrowers of the Loans and other Obligations; or (iii) to pay any other amount chargeable to US Borrowers

pursuant to the terms of this Agreement or any of the other Financing Agreements consisting of costs, fees and expenses and payments to any issuer of Letter of Credit Accommodations provided, that, the aggregate principal amount of the Special Agent Advances and the Canadian Special Agent Advances shall not exceed US\$4,000,000. Special Agent Advances and Canadian Special Agent Advances shall be repayable on demand and be secured by the Collateral. Special Agent Advances shall not constitute Loans but shall otherwise constitute Obligations hereunder.

(b) Tranche B Agent may, at its option, from time to time, at any time on or after an Event of Default and for so long as the same is continuing, make such disbursements and advances ("**Special Tranche B Agent Advances**") which Tranche B Agent, in its sole discretion, (i) deems necessary or desirable either to preserve or protect the Collateral or any portion thereof; or (ii) to enhance the likelihood or maximize the amount of repayment by US Borrowers of the Loans and other Obligations; provided, that, the aggregate principal amount of the Special Tranche B Agent Advances and the Canadian Special Tranche B Agent Advances shall not exceed US\$2,150,000. Special Tranche B Agent Advances and Canadian Special Tranche B Agent Advances shall be repayable on demand and be secured by the Collateral. Special Tranche B Agent Advances shall not constitute Loans but shall otherwise constitute Obligations hereunder.

(c) US Lenders hereby irrevocably authorize Agent, at its option and in its discretion to release any Lien upon any of the Collateral (i) upon payment and satisfaction of all of the Obligations and delivery of cash collateral to the extent required under Section 11.1 below, or (ii) constituting property being sold or disposed of if US Borrowers certify to Agent that the sale or disposition is made in compliance with Section 8.7 hereof (and Agent may rely conclusively on any such certificate, without further inquiry), or (iii) constituting property in which US Borrowers did not own an interest at the time the Lien was granted or at any time thereafter, or (iv) if required or permitted under the terms of any of the other Financing Agreements, or (v) approved, authorized or ratified in writing by all US Lenders. Except as provided above, Agent will not release any Lien upon any of the Collateral without the prior written authorization of all of US Lenders. Upon request by Agent at any time, US Lenders will promptly confirm in writing Agent's authority to release particular types or items of Collateral pursuant to this Section.

(d) Without any manner limiting Agent's authority to act without any specific or further authorization or consent by US Lenders, each US Lender agrees to confirm in writing, upon request by Agent, the authority to release Collateral conferred upon Agent under this Section. Agent shall (and is hereby irrevocably authorized by US Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent upon any Collateral to the extent set forth above; provided, that, (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligations or entail any consequence other than the release of such Liens without recourse or warranty and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Lien upon (or obligations of US Borrowers in respect of) the Collateral retained by US Borrowers.

(e) Each of Agent and Tranche B Agent shall have no obligation whatsoever to any US Lender or any other Person to investigate, confirm or assure that the Collateral exists or is owned by US Borrowers or is cared for, protected or insured or has been encumbered, or that any particular items of Collateral meet the eligibility criteria applicable in respect of the Loans or

Letter of Credit Accommodations hereunder, or whether any particular reserves are appropriate, or that the liens and security interests granted to Agent pursuant hereto or any of the Financing Agreements or otherwise have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the other Financing Agreements, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, each of Agent and Tranche B Agent may act in any manner it may deem appropriate, in its discretion, given its own interest in the Collateral as a US Lender and that each of Agent and Tranche B Agent shall have no duty or liability whatsoever to any other US Lender.

12.11 Agency for Perfection

Each Lender hereby appoints Agent and each other Lender as agent and bailee for the purpose of perfecting the security interests in and Liens upon the Collateral in assets which, in accordance with Article 9 of the UCC, can be perfected only by possession (or where the security interest of a secured party with possession has priority over the security interest of another secured party) and each Lender hereby acknowledges that it holds possession of any such Collateral for the benefit of Agent as secured party. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

12.12 Successor Agent and Tranche B Agent

Agent may resign as Agent upon forty-five (45) days' notice to US Lenders and US Borrowers. If Agent resigns under this Agreement, Required Lenders shall appoint a successor agent for US Lenders. If no successor agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with Tranche B Lenders and US Borrowers, a successor agent. Upon the acceptance by the person so selected of its appointment as successor agent hereunder, such successor agent shall succeed to all of the rights, powers and duties of the retiring Agent and the term "Agent" as used herein and in the other Financing Agreements shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 12 shall inure to its benefit as to any actions taken or omitted by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is forty-five (45) days after the date of a retiring Agent's notice of resignation, the retiring Agent's resignation shall nonetheless thereupon become effective and US Lenders shall perform all of the duties of Agent hereunder until such time, if any, as Required Lenders appoint a successor agent as provided for above. In the event that all Obligations other than in respect of the Tranche B Loan are fully paid and satisfied or Tranche B Lenders have exercised their option to purchase Obligations owing to Revolving Lender as provided in Section 11.11 hereof, (a) Agent may, at its option, appoint Tranche B Agent as successor "Agent" hereunder and (b) Tranche B Agent shall have the right, but not the obligation, upon written notice to Agent, to require Agent to resign under this Section 12.12 (and in the case of the exercise by Tranche B Lenders of their purchase option provided in Section 11.11 hereof, such resignation to be effective immediately upon the effectiveness of the purchase by Tranche B Lenders of the Obligations owing to Revolving Lender pursuant to the purchase option granted to Tranche B Lenders set forth in Section 11.11 hereof).

Tranche B Agent may resign as Tranche B Agent upon forty-five (45) days' notice to US Lenders and US Borrowers. If Tranche B Agent resigns under this Agreement, Required Tranche B Lenders shall appoint a successor agent for Tranche B Lenders. If no successor agent is appointed prior to the effective date of the resignation of Tranche B Agent, Tranche B Agent may appoint, after consulting with Tranche B Lenders and US Borrowers, a successor agent. Upon the acceptance by the person so selected of its appointment as successor agent hereunder, such successor agent shall succeed to all of the rights, powers and duties of the retiring Tranche B Agent and the term "Tranche B Agent" as used herein and in the other Financing Agreements shall mean such successor agent and the retiring Tranche B Agent's appointment, powers and duties as Tranche B Agent shall be terminated. After any retiring Tranche B Agent's resignation hereunder as Tranche B Agent, the provisions of this Section 12 shall inure to its benefit as to any actions taken or omitted by it while it was Tranche B Agent under this Agreement. If no successor agent has accepted appointment as Tranche B Agent by the date which is forty-five (45) days after the date of a retiring Tranche B Agent's notice of resignation, the retiring Tranche B Agent's resignation shall nonetheless thereupon become effective and Tranche B Lenders shall perform all of the duties of Tranche B Agent hereunder until such time, if any, as Required Tranche B Lenders appoint a successor agent as provided for above.

12.13 Existing Security held for Obligations

Agent and US Lenders acknowledge, confirm and agree that, notwithstanding any terms of the Financing Agreements, Agent shall hold the Existing Security and Existing Security Agreements to the extent granted in its favour and a party thereto, respectively, as agent for US Lenders and as security for the Obligations and shall apply the monetary proceeds of collections or of realization upon any Collateral subject to the Existing Security in accordance with Section 5.4 hereof.

SECTION 13. ACKNOWLEDGEMENT AND RESTATEMENT

13.1 Existing Obligations

US Borrowers hereby acknowledge, confirm and agree that US Borrowers are indebted to Agent and Revolving Lender for outstanding loans and advances to US Borrowers under the Original US Loan Agreement and in respect of Letter of Credit Accommodations (as defined in the Original US Loan Agreement), together with all interest accrued and accruing thereon (to the extent applicable), and all fees, costs, expenses and other charges relating thereto, all of which are unconditionally owing by US Borrowers to Agent and Revolving Lender to the extent set forth in the Original US Loan Agreement, without offset, defense or counterclaim of any kind, nature or description whatsoever.

13.2 Acknowledgment of Security Interests

(a) US Borrowers hereby acknowledge, confirm and agree that Agent on behalf of itself, Tranche B Agent and US Lenders shall continue to have a security interest in and Lien

upon the Collateral heretofore granted to Agent pursuant to the Original US Loan Agreement and Existing Security Agreements to secure the Obligations, as well as any Collateral granted under this Agreement or under any of the other Financing Agreements or otherwise granted to or held by Agent, Tranche B Agent or any US Lender.

(b) The Liens and security interests of Agent in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such Liens and security interests to Agent, whether under the Original US Loan Agreement and Existing Security Agreements, this Agreement or any of the other Financing Agreements.

13.3 Original US Loan Agreement

US Borrowers hereby acknowledge, confirm and agree that, subject to Section 13.4 hereof: (a) the Original US Loan Agreement has been duly executed and delivered by US Borrowers and is in full force and effect as of the Closing Date; (b) the agreements and obligations of US Borrowers contained in the Original US Loan Agreement constitute the legal, valid and binding obligations of US Borrowers, enforceable against US Borrowers in accordance with its terms and US Borrowers have no valid defense to the enforcement of such obligations; and (c) Agent, Tranche B Agent and US Lenders are entitled to all of the rights, remedies and benefits provided for in or arising pursuant to the Original US Loan Agreement.

13.4 Restatement

(a) Except as otherwise stated in Section 13.2 hereof and this Section 13.4, as of the Closing Date, the terms, conditions, agreements, covenants, representations and warranties set forth in the Original US Loan Agreement are simultaneously amended and restated in their entirety, and are amended and restated, replaced and superseded by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Financing Agreements executed and/or delivered on or after the Closing Date, except that nothing herein or in the other Financing Agreements shall impair or adversely affect the continuation of the liability of US Borrowers for the Obligations heretofore incurred and the security interests, Liens, and other interests in the Collateral heretofore granted, pledged and/or assigned by US Borrowers to Agent or any US Lender (whether directly, indirectly or otherwise).

(b) The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations and other obligations, liabilities and indebtedness of US Borrowers evidenced by or arising under the Original US Loan Agreement, and the Liens and security interests of Agent securing such Obligations and other obligations, liabilities and indebtedness, which shall not in any manner be impaired, limited, terminated, waived or released, but shall continue in full force and effect in favor of Agent for the benefit of itself, Tranche B Agent and US Lenders.

(c) All loans, advances and other financial accommodations under the Original US Loan Agreement and all other Obligations of US Borrowers to Agent and US Lenders outstanding and unpaid as of the Closing Date pursuant to the Original US Loan Agreement or otherwise shall be deemed Obligations of US Borrowers pursuant to the terms hereof. The

principal amount of the Revolving Loans and the amount of the Letter of Credit Accommodations outstanding as of the Closing Date under the Original US Loan Agreement shall be allocated to the Revolving Loans and Letter of Credit Accommodations hereunder in such manner and in such amounts as Agent shall determine in accordance with the terms hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Revolving Lender, Agent, Tranche B Agent, Tranche B Lender, Tranche B Agent and US Borrowers have caused this Agreement to be duly executed as of the day and year first above written.

REVOLVING LENDER AND AGENT

TRANCHE B LENDER AND TRANCHE B AGENT

**WACHOVIA CAPITAL FINANCE CORPORATION
(CENTRAL)**

MONROE CAPITAL MANAGEMENT ADVISORS LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

Address:
150 South Wacker Drive
Chicago, Illinois 60606
Fax: (312) 332-0424

Address:
Monroe Capital Advisors, LLC
311 South Wacker Drive
Suite 6400
Chicago, Illinois 60606
Attention: Alex Franky
Fax: (312) 258-8350

US BORROWER

US BORROWER

**SMTC MANUFACTURING CORPORATION OF
CALIFORNIA**

**SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS**

By: _____
Name:
Title:

By: _____
Name:
Title:

Address:
2302 Trade Zone Boulevard
San Jose, California
USA 95131

Address:
109 Constitution Blvd
Unit 160
Franklin, Massachusetts
USA
Fax No: (508) 520-9351

Fax No: (408) 934-7101

US BORROWER

SMTC MEX HOLDINGS, INC.

By: _____
Name:
Title:

Address:

635 Hood Road
Markham, Ontario
Canada, L3R 4N6

Fax No: (905) 479-5326

EXHIBIT A
INFORMATION CERTIFICATES

SCHEDULE 1.10

BORROWING BASE CERTIFICATE

SCHEDULE 1.49(f)

FORM OF BILLING AUTHORIZATION LETTER RE: ACCOUNTS

Form not delivered by SMTC prior to closing.

SCHEDULE 1.49(g)

FORM OF NO-OFFSET AGREEMENT RE: ACCOUNTS

Form not delivered by SMTC prior to closing.

SCHEDULE 1.50

FORM OF INVENTORY PURCHASE AGREEMENT

Form not delivered by SMTC prior to closing.

SCHEDULE 1.61

EXISTING SECURITY AGREEMENTS

SCHEDULE 1.89

MAJOR CUSTOMER DESIGNATED FACILITIES

SCHEDULE 1.97

MEXICAN SECURITY DOCUMENTS

1. Guarantee of US Borrowers given by Radio Componentes de Mexico, S.A. de C.V.
2. First priority mortgage on all real estate owned by Radio Componentes de Mexico, S.A. de C.V.
3. Non-possessory pledge and deposit agreement over all of the assets owned by SMTC Mex Holdings, Inc. located at any time in Mexico.
4. Stock Pledge Agreement granted by SMTC Mex Holdings, Inc. over the shares of SMTC de Chihuahua, S.A. de C.V.

SCHEDULE 1.128

DESCRIPTION OF REVOLVING LOAN PRIORITY COLLATERAL

1. all Accounts;
2. all Inventory;
3. all Related Intangibles;
4. all Receivables; and
5. all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims against third parties for loss or damage to or destruction of or other involuntary conversion of any kind or nature of any or all of the Collateral (described in clauses 1 through 4 above). As used herein, products and proceeds shall not include any Tranche B Loan Priority Collateral purchased or otherwise acquired by any Obligor (including from proceeds of any loans, advances or other financial accommodations provided by Revolving Lender or Canadian Revolving Lender to any Obligor).

DEFINITIONS

“**Accounts**” shall mean all present and future rights of an Obligor to payment of a monetary obligation, whether or not earned by performance, which is not evidenced by chattel paper or an instrument, (a) for Inventory that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, (b) for services rendered or to be rendered, (c) for a secondary obligation supporting the payment or performance of Accounts incurred or to be incurred, or (d) arising out of the use of a credit card or charge card or information contained on or for use with the card with respect to the payment of amounts constituting Accounts.

“**Related Intangibles**” shall mean (a) payment intangibles, contract rights, commercial tort claims, choses in action or causes of actions or claims in each case arising out of or supporting the payment or performance of Accounts or Inventory; (b) guaranty or warranty claims with respect to Accounts or Inventory; (c) all letters of credit, banker’s acceptances and similar instruments of each Obligor supporting or received in consideration for any Inventory or Account of an Obligor; (d) all supporting obligations evidencing Accounts with respect to such Obligor and all present and future Liens, security interests, rights, remedies, title and interest supporting or received or receivable in respect of Inventory and Accounts of an Obligor, including (i) rights and remedies under or relating to guaranties, indemnities, contracts of suretyship, letters of credit and credit and other insurance, (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts, including returned, repossessed and reclaimed goods, and (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors, in each case for purposes of clauses (i) through (iv), to the extent supporting or securing, or arising from, Accounts or Inventory of such Obligor; and (e)

monies, credit balances, deposits and other property of each Obligor constituting proceeds of Accounts, Inventory or any of the foregoing now or hereafter held or received by or in transit to Agent, any Lender or at any other depository or other institution from or for the account of any Obligor, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including blocked accounts, agent payment accounts and investment property accounts. It is understood and agreed that, except as otherwise expressly provided above, Related Intangibles shall not include general intangibles as defined in Article 9 of the Uniform Commercial Code, including without limitation, copyrights, patents, trademarks, trade names, mailing lists or other intellectual property, or the proceeds of any of the foregoing.

“Inventory” shall mean the following now owned or hereafter arising or acquired property of an Obligor: “inventory”, as such term is defined in the UCC, and inventory, goods, and merchandise to be furnished under any contract of service or held for sale or lease, returned goods, raw materials, work-in-process, finished goods (including embedded software), other materials and supplies of any kind, nature, or description in each case which are used or consumed in a Person’s business or used in connection with the packing, shipping, advertising, selling, or finishing of such goods, merchandise, and all documents of title or other documents representing them; provided that, notwithstanding anything to the contrary contained herein, “Inventory” shall not include any fixtures, machinery, equipment or real property (whether owned or leased), or any products or proceeds of the foregoing.

“Receivables” shall mean the following now owned or hereafter arising or acquired property of an Obligor: (a) all Accounts; (b) all interest, fees, late charges, penalties, collection fees and other amounts due or to become due or otherwise payable in connection with any Account; (c) all instruments evidencing Accounts or Inventory, including all promissory notes relating to the foregoing; (d) all chattel paper with respect to, or otherwise representing or evidencing, Accounts or Inventory; (e) all documents representing or evidencing, Accounts or Inventory; (f) the proceeds of all of the foregoing; and (g) all ledgers, books of account, records, software, tapes, cards, computer programs, computer disks or tapes, computer printouts, computer runs, and other computer prepared information relating in each case solely to any of the foregoing.

SCHEDULE 7.4
EXISTING LIENS

SCHEDULE 7.8
BANK ACCOUNTS

SCHEDULE 7.17
LABOUR DISPUTES

SCHEDULE 8.9
EXISTING INDEBTEDNESS

SCHEDULE 8.10

EXISTING LOANS, ADVANCES AND GUARANTEE

Amended and Restated Canadian Loan Agreement

by and between

WACHOVIA CAPITAL FINANCE CORPORATION (CANADA)

formerly known as Congress Financial Corporation (Canada),
as Revolving Lender and Administrative and Collateral Agent

- and -

MONROE CAPITAL MANAGEMENT ADVISORS LLC

as a Tranche B Lender and Tranche B Agent

- and -

**SMTC MANUFACTURING CORPORATION OF CANADA
/SOCIETE DE FABRICATION SMTC DU CANADA**

as Canadian Borrower

Dated: August 3, 2007

TABLE OF CONTENTS

	<u>Page No.</u>	
SECTION 1	DEFINITIONS	2
1.1	“Accounts”	2
1.2	“Adjusted Libor Rate”	2
1.3	“Agent”	3
1.4	“Applicable Margin”	3
1.5	“Approved Fund”	4
1.6	“Availability Reserves”	4
1.7	“BIA”	4
1.8	“Blocked Accounts”	4
1.9	“Borrowing Base”	4
1.10	“Borrowing Base Certificate”	5
1.11	“Business Day”	5
1.12	“Canadian Borrower”	5
1.13	“Canadian Dollar Amount”	5
1.14	“Canadian Excess Availability”	5
1.15	“Canadian Lenders”	6
1.16	“Canadian Prime Rate”	6
1.17	“Canadian Prime Rate Loans”	6
1.18	“Canadian Reference Bank”	6
1.19	“Canadian Revolving Maximum Credit”	6
1.20	“Capital Expenditures”	6
1.21	“Capital Lease”	6
1.22	“CCAA”	6
1.23	“CDOR Rate”	7
1.24	“Change in Law”	7
1.25	“Closing Date”	7
1.26	“Collateral”	7
1.27	“Combined Eligible Accounts”	7
1.28	“Consolidated Net Income”	7
1.29	“Control”	8
1.30	“Debt Offering”	8
1.31	“Default”	8
1.32	“Deposit Account Control Agreement”	8
1.33	“EBITDA”	9
1.34	“Eligible Accounts”	9

Table of Contents (cont'd.)**Page No.**

1.35	“Eligible Inventory”	11
1.36	“Enforcement Action”	12
1.37	“Environmental Laws”	12
1.38	“Equipment”	12
1.39	“Equity Offering”	12
1.40	“Equivalent Amount”	12
1.41	“Excess Cash Flow”	13
1.42	“Existing Security”	13
1.43	“Existing Security Agreements”	13
1.44	“Event of Default”	13
1.45	“Financing Agreements”	13
1.46	“Fixed Charge Coverage Ratio”	13
1.47	“Fixed Charges”	13
1.48	“Full Control Notice”	14
1.49	“GAAP”	14
1.50	“General Security Agreement”	14
1.51	“Hazardous Materials”	14
1.52	“Hedge Agreement”	14
1.53	“Hedging Liabilities”	14
1.54	“HTM”	15
1.55	“Inactive Subsidiaries”	15
1.56	“Information Certificate”	15
1.57	“Interest Expense”	15
1.58	“Interest Payment Date”	15
1.59	“Interest Period”	16
1.60	“Interest Rate”	16
1.61	“Inventory”	16
1.62	“ISDA”	16
1.63	“ITA”	16
1.64	“Junior Participation”	16
1.65	“Leased Real Property”	17
1.66	“Letter of Credit Accommodations”	17
1.67	“Libor Rate”	17
1.68	“Libor Rate Loan”	17
1.69	“Lien”	17
1.70	“Loans”	17
1.71	“Major Customer”	18
1.72	“Major Customer Designated Facilities”	18

Table of Contents (cont'd.)**Page No.**

1.73	“Mark to Market Exposure”	18
1.74	“Material Adverse Effect”	18
1.75	“Maturity Date”	18
1.76	“Measurement Date”	18
1.77	“Mexican Negative Pledge Agreement”	18
1.78	“Mexican Obligor Collateral”	19
1.79	“Mexican Obligors”	19
1.80	“Mexican Security Documents”	19
1.81	“Mexican Undertaking”	19
1.82	“Monroe”	19
1.83	“Moody’s”	19
1.84	“Net Amount of Eligible Accounts”	19
1.85	“Obligations”	20
1.86	“Obligor”	20
1.87	“Officer’s Compliance Certificate”	20
1.88	“Original Canadian Loan Agreement”	20
1.89	“Original US Loan Agreement”	20
1.90	“Payment Account”	20
1.91	“Pension Plans”	20
1.92	“Person” or “person”	21
1.93	“PPSA”	21
1.94	“Priority Event”	21
1.95	“Priority Payables Reserve”	21
1.96	“Provision for Taxes”	21
1.97	“Real Property”	22
1.98	“Records”	22
1.99	“Reference Rate”	22
1.100	“Reference Rate Loans”	22
1.101	“Register”	22
1.102	“Registered Tranche B Loan”	22
1.103	“Registered Tranche B Loan Note”	22
1.104	“Required Lenders”	22
1.105	“Required Tranche B Lenders”	23
1.106	“Revolving Lender”	23
1.107	“Revolving Loan Priority Collateral”	23
1.108	“Revolving Loans”	23
1.109	“S&P”	23
1.110	“SMTC Corporation”	23

Table of Contents (cont'd.)**Page No.**

1.111	“Solvent”	23
1.112	“Special Agent Advances”	24
1.113	“Special Tranche B Agent Advances”	24
1.114	“Spot Rate”	24
1.115	“Subsidiaries”	24
1.116	“Total Debt”	24
1.117	“Total Excess Availability”	24
1.118	“Total Leverage Ratio”	24
1.119	“Tranche B Agent”	24
1.120	“Tranche B Lenders”	25
1.121	“Tranche B Loan”	25
1.122	“Tranche B Loan Action Default”	25
1.123	“Tranche B Loan Action Default Notice”	25
1.124	“Tranche B Loan Interest Rate”	25
1.125	“Tranche B Loan Fee Letter”	25
1.126	“Tranche B Loan Priority Collateral”	26
1.127	“US”	26
1.128	“US Advances”	26
1.129	“US Agent”	26
1.130	“US Availability Reserves”	26
1.131	“US Borrowers”	26
1.132	“US Borrowing Base”	26
1.133	“US Dollar Amount”	26
1.134	“US Eligible Accounts”	26
1.135	“US Excess Availability”	27
1.136	“US Financing Agreements”	27
1.137	“US Hedge Agreements”	27
1.138	“US Hedging Liabilities”	27
1.139	“US Lenders”	27
1.140	“US Letter of Credit Accommodations”	27
1.141	“US Loan Agreement”	27
1.142	“US Loans”	27
1.143	“US Mark to Market Exposure”	28
1.144	“US Obligations”	28
1.145	“US Prime Rate”	28
1.146	“US Priority Event”	28
1.147	“US Revolving Lender”	28
1.148	“US Revolving Loans”	28

Table of Contents (cont'd.)		<u>Page No.</u>
1.149	“US Revolving Maximum Credit”	28
1.150	“US Tranche B Agent”	28
1.151	“US Special Agent Advances”	28
1.152	“US Special Tranche B Agent Advances”	29
1.153	“US Tranche B Loan”	29
1.154	“US Tranche B Lenders”	29
1.155	“Value”	29
1.156	“Wachovia”	29
SECTION 2 CREDIT FACILITIES		29
2.1	Revolving Loans	29
2.2	Letter of Credit Accommodations	30
2.3	Tranche B Loan	34
2.4	Availability Reserves	37
2.5	Taxes	37
2.6	Hedge Agreements	39
SECTION 3 INTEREST AND FEES		40
3.1	Interest	40
3.2	Closing Fee	42
3.3	Servicing Fee	42
3.4	Unused Line Fee	43
3.5	Commitment Fee	43
3.6	Increased Costs and Changes in Law	43
SECTION 4 CONDITIONS PRECEDENT		45
4.1	Conditions Precedent to Amendment and Restatement	45
4.2	Conditions Precedent to All Loans and Letter of Credit Accommodations	49
SECTION 5 COLLECTION AND ADMINISTRATION		50
5.1	Canadian Borrower’s Loan Account	50
5.2	Statements	50
5.3	Collection of Accounts	50
5.4	Payments	52
5.5	Authorization to Make Loans and Letter of Credit Accommodations	57
5.6	Use of Proceeds	57
5.7	Obligations Several; Independent Nature of Canadian Lenders’ Rights	58
SECTION 6 COLLATERAL REPORTING AND COVENANTS		58
6.1	Collateral Reporting	58
6.2	Accounts Covenants	59
6.3	Inventory Covenants	60

Table of Contents (cont'd.)		<u>Page No.</u>
6.4	Equipment Covenants	61
6.5	Power of Attorney	61
6.6	Right to Cure	62
6.7	Access to Premises	63
SECTION 7 REPRESENTATIONS AND WARRANTIES		63
7.1	Corporate Existence, Power and Authority; Subsidiaries	63
7.2	Financial Statements; No Material Adverse Change	64
7.3	Name; State of Organization; Chief Executive Office; Collateral Locations	64
7.4	Priority of Liens; Title to Properties	64
7.5	Tax Returns	65
7.6	Litigation	65
7.7	Compliance with Other Agreements and Applicable Laws	65
7.8	Bank Accounts	66
7.9	Accuracy and Completeness of Information	66
7.10	Status of Pension Plans	66
7.11	Environmental Compliance	67
7.12	Intellectual Property	68
7.13	Subsidiaries; Affiliates; Capitalization; Solvency	68
7.14	Survival of Warranties; Cumulative	69
7.15	Inactive Subsidiaries	69
7.16	Labour Disputes	69
7.17	Intentionally Deleted.	70
SECTION 8 AFFIRMATIVE AND NEGATIVE COVENANTS		70
8.1	Maintenance of Existence	70
8.2	New Collateral Locations	70
8.3	Compliance with Laws, Regulations, Etc.	70
8.4	Payment of Taxes and Claims	72
8.5	Insurance	72
8.6	Financial Statements and Other Information	73
8.7	Sale of Assets, Consolidation, Amalgamation, Dissolution, Etc.	75
8.8	Encumbrances	76
8.9	Indebtedness	76
8.10	Loans, Investments, Guarantees, Etc.	77
8.11	Dividends and Redemptions	77
8.12	Transactions with Affiliates	78
8.13	Intellectual Property	78
8.14	Additional Bank Accounts	78
8.15	Applications under the Companies' Creditors Arrangement Act or BIA	78

Table of Contents (cont'd.)		<u>Page No.</u>
8.16	Operation of Pension Plans	79
8.17	Costs and Expenses	79
8.18	Further Assurances	80
8.19	EBITDA	80
8.20	Inactive Subsidiaries	81
8.21	End of Fiscal Years; Fiscal Quarters	81
8.22	Change in Business	81
8.23	Fixed Charge Coverage Ratio	81
8.24	Maximum Total Debt	82
8.25	Maximum Capital Expenditures	84
8.26	After Acquired Real Property	85
SECTION 9 EVENTS OF DEFAULT AND REMEDIES		85
9.1	Events of Default	85
9.2	Remedies	88
SECTION 10 JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW		96
10.1	Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver	96
10.2	Waiver of Notices	98
10.3	Amendments and Waivers	99
10.4	Waiver of Counterclaim	100
10.5	Indemnification	100
SECTION 11 TERM OF AGREEMENT; MISCELLANEOUS		100
11.1	Term	100
11.2	Notices	101
11.3	Partial Invalidity	101
11.4	Successors and Assignment	102
11.5	Entire Agreement	104
11.6	Headings	105
11.7	Judgment Currency	105
11.8	Interpretative Provisions	105
11.9	Counterparts	106
11.10	Tranche B Lenders Purchase Option	106
11.11	Revolving Lender Purchase Option	108
11.12	Competing Purchase Options	110
11.13	US Obligation Purchase Requirement	110
11.14	Limitation on Gross Up for Withholding Tax	110
SECTION 12 THE AGENT AND THE TRANCHE B AGENT		110
12.1	Appointment, Powers and Immunities	110

Table of Contents (cont'd.)

	<u>Page No.</u>
12.2 Reliance By Agent and Tranche B Agent	111
12.3 Events of Default	111
12.4 Agents in their Individual Capacity	112
12.5 Indemnification	112
12.6 Non-Reliance on Agent, Tranche B Agent and Other Lenders	113
12.7 Failure to Act	114
12.8 Concerning the Collateral and the Related Financing Agreements	114
12.9 Field Audit, Examination Reports and other Information; Disclaimer by Lenders	114
12.10 Collateral Matters	114
12.11 Agency for Perfection	116
12.12 Successor Agent and Tranche B Agent	116
12.13 Existing Security held for Obligations	117
SECTION 13 ACKNOWLEDGEMENT AND RESTATEMENT	118
13.1 Existing Obligations	118
13.2 Acknowledgment of Security Interests	118
13.3 Original Canadian Loan Agreement	118
13.4 Restatement	118

**INDEX TO
EXHIBITS AND SCHEDULES**

Exhibit A	—	Information Certificate
Schedule 1.10	—	Form of Borrowing Base Certificate
Schedule 1.34(f)	—	Form of Billing Authorization Letter re: Accounts
Schedule 1.34(g)	—	Form of No-Offset Agreement re: Accounts
Schedule 1.35	—	Form of Inventory Purchase Agreement
Schedule 1.43	—	Description of Existing Security Agreements
Schedule 1.72	—	Major Customer Designated Facilities
Schedule 1.80	—	Mexican Security Documents
Schedule 1.107	—	Description of Revolving Loan Priority Collateral
Schedule 7.4	—	Existing Liens
Schedule 7.8	—	Bank Accounts
Schedule 7.16	—	Labour Disputes
Schedule 8.9	—	Existing Indebtedness
Schedule 8.10	—	Existing Loans, Advances and Guarantees

AMENDED AND RESTATED CANADIAN LOAN AGREEMENT

This Amended and Restated Canadian Loan Agreement dated August 3, 2007 is entered into by and between Wachovia Capital Finance Corporation (Canada), formerly known as Congress Financial Corporation (Canada), an Ontario corporation, in its capacity as lender of Revolving Loans hereunder (in such capacity together with its successors and assigns, "**Revolving Lender**") and in its capacity as agent (in such capacity together with its successors and assigns, "**Agent**"), Monroe Capital Management Advisors LLC, a Delaware limited liability company, in its capacity as agent for the Tranche B Lenders (in such capacity together with its successors and assigns, "**Tranche B Agent**"), the lenders party hereto from time to time as lenders of the Tranche B Loan (in such capacity together with their respective successors and assigns, collectively, "**Tranche B Lenders**" and individually a "**Tranche B Lender**"), and SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC Du Canada, an Ontario corporation ("**Canadian Borrower**").

WITNESSETH:

WHEREAS Canadian Borrower, Revolving Lender and Agent are parties to the Canadian Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, the "**Original Canadian Loan Agreement**") pursuant to which Revolving Lender has made and may make loans and provide other financial accommodations to Canadian Borrower;

WHEREAS Canadian Borrower has requested that Agent and Canadian Lenders amend and restate the Original Canadian Loan Agreement pursuant to and in accordance with the terms and conditions set forth herein;

WHEREAS Canadian Borrower has asked Tranche B Lenders to extend credit to the Canadian Borrower consisting of a term loan in the aggregate principal amount of US\$5,000,000, the proceeds of which shall be used to refinance certain existing indebtedness of Canadian Borrower, for general working capital purposes of Canadian Borrower and to pay fees and expenses related to this Agreement;

WHEREAS Tranche B Lenders are willing to become Canadian Lenders under this Agreement and to make a term loan to Canadian Borrower and each other Canadian Lender is willing to agree to amend and restate the Original Canadian Loan Agreement and to make such loans and provide such financial accommodations to Canadian Borrower on the terms and conditions set forth in this Agreement and Agent is willing to act as agent, on behalf of Revolving Lender, Tranche B Agent and Tranche B Lenders, on the terms and conditions set forth in this Agreement and Tranche B Agent is willing to act as agent on behalf of Tranche B Lenders on the terms and conditions set forth in this Agreement;

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

Section 1 Definitions

All terms used herein which are defined in the PPSA (as hereinafter defined) shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Canadian Borrower, Revolving Lender, Tranche B Lender and Agent pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words “**hereof**”, “**herein**”, “**hereunder**”, “**this Agreement**” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “**including**” when used in this Agreement shall mean “**including, without limitation**”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted, and/or consolidated from time to time and any successor statute thereto. An Event of Default (as hereinafter defined) shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 10.3 or is cured in a manner satisfactory to the Required Lenders (as hereinafter defined), if such Event of Default is capable of being cured as determined by the Required Lenders. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. “**Canadian Dollars**” and the sign “**C\$**” mean lawful money of Canada. “**US Dollars**” and the sign “**US\$**” mean lawful money of the US. All monetary amounts referred to in this Agreement are in US Dollars unless otherwise stated. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 “Accounts”

“**Accounts**” shall mean all present and future rights of Canadian Borrower to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 “Adjusted Libor Rate”

“**Adjusted Libor Rate**” shall mean, with respect to each Interest Period for any Libor Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16th) of one percent (1%)) determined by dividing:

- (a) the Libor Rate for such Interest Period by:
- (b) a fraction equal to:
 - (i) one (1); minus
 - (ii) the Reserve Percentage.

For purposes hereof, “**Reserve Percentage**” shall mean the reserve percentage, expressed as a decimal, prescribed by any Canadian or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of Canadian Dollars in a non-Canadian or an international banking office of the Canadian Reference Bank, used to fund a Libor Rate Loan or any Libor Rate Loan made with the proceeds of such deposit, whether or not the Canadian Reference Bank actually holds or has made any such deposits or loans. The Adjusted Libor Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage. At no time shall the Adjusted Libor Rate for any Interest Period be less than five (5%) percent per annum.

1.3 “Agent”

“Agent” shall have the meaning set forth in the preamble to this Agreement.

1.4 “Applicable Margin”

“**Applicable Margin**” shall mean the corresponding percentages per annum as set forth in the table below. The Applicable Margin shall be determined and adjusted quarterly on the date (each, a “**Calculation Date**”) on which Canadian Borrower provides (or are required to provide) an Officer’s Compliance Certificate pursuant to Section 8.6(a)(ii) for the most recently ended fiscal quarter of SMTC Corporation; provided, however, that (a) the Applicable Margin shall be based on Level I for the first full year following the Closing Date and thereafter the Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended fiscal quarter of SMTC Corporation preceding the applicable Calculation Date and (b) if Canadian Borrower fails to provide the Officer’s Compliance Certificate as required by Section 8.6(a)(ii) for the most recently ended fiscal quarter of SMTC Corporation preceding the applicable Calculation Date, the Applicable Margin for such Calculation Date shall be based on Level I until such time as such Officer’s Compliance Certificate is provided, at which time the Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended fiscal quarter of SMTC Corporation preceding such Calculation Date.

Level	Total Leverage Ratio	Applicable Margin for Libor Rate Loans	Applicable Margin for Reference Rate Loans
Level I	Greater than or equal to 2.50x	4.00%	1.25%
Level II	Less than 2.50x but greater than or equal to 2.00x	3.50%	0.75%
Level III	Less than 2.00x but greater than or equal to 1.50x	3.25%	0.50%
Level IV	Less than 1.50x	3.00%	0.25%

1.5 “Approved Fund”

“**Approved Fund**” shall mean with respect to any Canadian Lender that is a fund or similar investment vehicle that makes or invests in commercial loans, any other fund or similar investment vehicle that invests in commercial loans which is managed or advised by the same investment advisor as such Canadian Lender or by an affiliate of such investment advisor.

1.6 “Availability Reserves”

“**Availability Reserves**” shall mean, as of any date of determination, such amounts as Agent may from time to time establish and revise reducing the amount of the Revolving Loans and Letter of Credit Accommodations which would otherwise be available to Canadian Borrower under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Agent, do or, with the giving of notice or passage of time would, affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets, business or prospects of Canadian Borrower or any Obligor or (iii) the Liens and other rights of Agent, Tranche B Agent and Canadian Lenders in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Agent’s belief that any collateral report or financial information furnished by or on behalf of Canadian Borrower or any Obligor to Agent is or may have been incomplete, inaccurate or misleading in any material respect or (c) to reflect outstanding Letter of Credit Accommodations as provided in Section 2.2 hereof or (d) to reflect Agent’s estimate of the amount of any Priority Payables Reserve, or (e) in respect of any state of facts which Agent determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default or (f) to reflect Agent’s good faith estimate of the amount of any reserve necessary to reflect changes or fluctuations in applicable currency exchange markets and exchange rates or to reflect the Mark to Market Exposure of any Hedge Agreement of Canadian Borrower.

1.7 “BIA”

“**BIA**” shall mean the *Bankruptcy and Insolvency Act* (Canada).

1.8 “Blocked Accounts”

“**Blocked Accounts**” shall have the meaning set forth in Section 5.3(a) hereof.

1.9 “Borrowing Base”

“**Borrowing Base**” shall mean, at any time, the US Dollar Amount equal to:

- (a) eighty-five (85%) percent of the Net Amount of Eligible Accounts; plus
- (b) the least of: (i) fifty (50%) percent of the Value of Eligible Inventory consisting of raw materials and finished goods; or (ii) eighty-five (85%) percent of the appraised value of the Eligible Inventory expressed as a percentage of cost value, net of liquidation expenses, with appraisals conducted on an orderly liquidation basis at the expense of Canadian Borrower by independent appraisers acceptable to Agent and otherwise in accordance with Section 6.3; or (iii) twenty-five (25%) percent of the Canadian Revolving Maximum Credit, minus

(c) any Availability Reserves.

For purposes only of applying the sub-limit on Revolving Loans based on Eligible Inventory pursuant to paragraph (b)(iii) immediately above, Agent may treat the then un-drawn amounts of outstanding Letter of Credit Accommodations for the purpose of purchasing Eligible Inventory as Revolving Loans to the extent Agent is in effect basing the issuance of the Letter of Credit Accommodations on the Value of the Eligible Inventory being purchased with such Letter of Credit Accommodations. In determining the actual amounts of such Letter of Credit Accommodations to be so treated for purposes of the sub-limit in paragraph (b)(iii) immediately above, the outstanding Revolving Loans and Availability Reserves shall be attributed first to any components of the lending formulas in the Borrowing Base that are not subject to such sub-limit, before being attributed to the components of the lending formulas subject to such sub-limit.

1.10 “Borrowing Base Certificate”

“**Borrowing Base Certificate**” shall mean a certificate executed by Canadian Borrower, in substantially the form attached hereto as Schedule 1.10, setting forth the Revolving Loans available to Canadian Borrower.

1.11 “Business Day”

“**Business Day**” shall mean a day (other than a Saturday, Sunday or statutory holiday in Ontario, Illinois or New York) on which Agent’s Toronto office, US Agent’s Chicago office, Tranche B Agent’s Chicago office and banks in Toronto, Chicago, New York City and, with respect to Libor Rate Loans, London, England, are open for business in the normal course.

1.12 “Canadian Borrower”

“**Canadian Borrower**” shall have the meaning set forth in the preamble to this Agreement.

1.13 “Canadian Dollar Amount”

“**Canadian Dollar Amount**” shall mean, at any time, (a) as to any amount denominated in Canadian Dollars, the amount thereof at such time, and (b) as to any amount denominated in any other currency, the Equivalent Amount in Canadian Dollars.

1.14 “Canadian Excess Availability”

“**Canadian Excess Availability**” shall mean the US Dollar Amount, as determined by Agent, calculated at any time, equal to: (a) the lesser of: (i) the Borrowing Base subject to the sublimits and Availability Reserves established by Agent from time to time hereunder and (ii) the Canadian Revolving Maximum Credit (less the Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements) minus (b) the sum of: (i) the US Dollar Amount of all then outstanding and unpaid Revolving Loans and Letter of Credit Accommodations plus (ii) the aggregate amount of (x) all due but unpaid tax obligations as of such time and (y) all trade payables of Canadian Borrower that are past due for more than 60 days as of such time.

1.15 “Canadian Lenders”

“Canadian Lenders” shall mean collectively, Revolving Lender and Tranche B Lender.

1.16 “Canadian Prime Rate”

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

1.17 “Canadian Prime Rate Loans”

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

1.18 “Canadian Reference Bank”

“Canadian Reference Bank” shall mean Bank of Montreal, or its successors and assigns, or such other bank as Lender may from time to time designate.

1.19 “Canadian Revolving Maximum Credit”

“Canadian Revolving Maximum Credit” shall mean US\$40,000,000 minus the outstanding Revolving Loans, Letter of Credit Accommodations and Mark to Market Exposure of US Borrowers under all their Hedge Agreements. For greater certainty, the aggregate of the US Revolving Maximum Credit and the Canadian Revolving Maximum Credit shall at no time exceed US\$40,000,000.

1.20 “Capital Expenditures”

“Capital Expenditures” shall mean all expenditures for, or contracts for expenditures for, any fixed or capital assets or improvements, or for replacements, substitutions or additions thereto, which have a useful life of more than one (1) year, including the direct or indirect acquisition of such assets by way of offset items or otherwise and shall include the principal amount of payments under Capital Leases during the applicable period.

1.21 “Capital Lease”

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

1.22 “CCAA”

“CCAA” shall mean the *Companies’ Creditors Arrangement Act* (Canada).

1.23 “CDOR Rate”

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

1.24 “Change in Law”

“Change in Law” shall mean the occurrence of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty or (b) any change in law, rule, regulation or treaty or in the administration, interpretation or application thereof by any governmental authority.

1.25 “Closing Date”

“Closing Date” shall mean August 3, 2007 or such later date as the conditions precedent to effectiveness set forth in Section 4.1 hereof are satisfied in the sole discretion of Agent and Tranche B Agent.

1.26 “Collateral”

“Collateral” shall mean all of the undertaking, property and assets, present and future, real and personal, of Canadian Borrower and any other Obligor now or hereafter pledged, charged, assigned, transferred and/or encumbered to secure, either directly or indirectly, repayment of any of the Obligations.

1.27 “Combined Eligible Accounts”

“Combined Eligible Accounts” shall mean, collectively, US Eligible Accounts and Eligible Accounts.

1.28 “Consolidated Net Income”

“Consolidated Net Income” shall mean, with respect to any Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries, on a consolidated basis, for such period (excluding to the extent included therein any extraordinary or non-recurring gains and extraordinary non-cash charges and not more than US\$750,000 in any fiscal year of extraordinary cash charges) after deducting all charges which should be deducted before arriving at the net income (loss) for such period and after deducting the Provision for Taxes for such period, all as determined in accordance with GAAP; provided, that, (a) the net income of any Person that is not a wholly-owned Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid or payable to such Person or a wholly-owned Subsidiary of such Person; (b) except to the extent included pursuant to the foregoing clause, the net income of any Person accrued prior to the date it becomes a wholly-owned Subsidiary of such Person or is merged into or consolidated with

such Person or any of its wholly-owned Subsidiaries or that Person's assets are acquired by such Person or by any of its wholly-owned Subsidiaries shall be excluded; (c) the effect of any change in accounting principles adopted by such Person or its Subsidiaries after the Closing Date shall be excluded; (d) net income shall exclude interest accruing, but not paid, on indebtedness owing to a Subsidiary or parent corporation of such Person, which is subordinated in right of payment to the payment in full of the Obligations, on terms and conditions acceptable to Agent; and (e) the net income (if positive) of any wholly-owned Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such wholly-owned Subsidiary to such Person or to any other wholly-owned Subsidiary of such Person is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such wholly-owned Subsidiary shall be excluded. For the purposes of this definition, net income excludes any gain and non-cash loss (but not any cash loss) together with any related Provision for Taxes for such gain and non-cash loss (but not any cash loss) realized upon the sale or other disposition of any assets that are not sold in the ordinary course of business (including dispositions pursuant to sale and leaseback transactions) or of any capital stock of such Person or a Subsidiary of such Person.

1.29 "Control"

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or by contract or otherwise and, when determining control based on ownership of voting securities, means, with respect to control of a body corporate by a Person, the holding (other than by way of security only) by or for the benefit of that Person, or affiliates of that Person of securities of such body corporate or the right to vote or direct the voting of securities of such body corporate to which, in the aggregate, are attached more than 50% of the votes that may be cast to elect directors of the body corporate, provided that the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the body corporate.

1.30 "Debt Offering"

"Debt Offering" shall mean any incurrence of indebtedness by SMTC Corporation and its Subsidiaries on terms and conditions approved in writing by Agent and Tranche B Agent including that such indebtedness is fully subordinated in right of payment to the Obligations and the US Obligations.

1.31 "Default"

"Default" shall mean an event, circumstance or omission which, with any of the giving of notice, a lapse of time or a failure to remedy the event, circumstance or omission within a lapse of time, would constitute an Event of Default.

1.32 "Deposit Account Control Agreement"

"Deposit Account Control Agreement" shall have the meaning set forth in Section 5.3(a) hereof.

1.33 “EBITDA”

“EBITDA” shall mean, as to any Person, with respect to any period, an amount equal to: (i) the Consolidated Net Income of such Person for such period, plus (ii) depreciation and amortization for such period (to the extent deducted in the computation of Consolidated Net Income of such Person), all in accordance with GAAP, plus (iii) Interest Expense for such period (to the extent deducted in the computation of Consolidated Net Income of such Person), plus (iv) the Provision of Taxes for such period (to the extent deducted in the computation of Consolidated Net Income of such Person).

1.34 “Eligible Accounts”

“Eligible Accounts” shall mean Accounts created by Canadian Borrower which are and continue to be acceptable to Agent based on the criteria set forth below. In general, Accounts shall be Eligible Accounts if:

- (a) such Accounts arise from the actual and bona fide sale and delivery of goods by Canadian Borrower or rendition of services by Canadian Borrower in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;
- (b) such Accounts are not unpaid for more than: (i) sixty (60) days after the original due date; or (ii) ninety (90) days after the date of the original invoice for them; or (iii) one hundred twenty (120) days after the date of the original invoice for such Accounts agreed to in writing by Agent in its sole discretion;
- (c) such Accounts comply with the terms and conditions contained in Section 6.2(c) of this Agreement;
- (d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;
- (e) the chief executive office of the account debtor with respect to such Accounts is located in the US or Canada and the Account is payable in Canadian Dollars or US Dollars or, if the chief executive office of the account debtor with respect to such Accounts is not located in the US or Canada, at Agent’s option, if either: (i) the account debtor has delivered to Canadian Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Agent and payable only in Canada in the currency in which the Account is denominated, sufficient to cover such Account, in form and substance satisfactory to Agent and, if required by Agent, the original of such letter of credit has been delivered to Agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Agent; or (ii) such Account is subject to credit insurance payable to Agent issued by an insurer and on terms and in an amount acceptable to Agent; or (iii) such Account is otherwise acceptable in all respects to Agent (subject to such lending formula with respect thereto as Agent may determine); or (iv) if the account debtor is a non-Canadian or non-US affiliate or subsidiary of a Major Customer, the Major Customer issues a guarantee in writing, in favor of Canadian Borrower and Agent, in form and substance satisfactory to Agent, guaranteeing payment of the applicable Account to Canadian Borrower and Agent;

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- (f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Agent shall have received an agreement (each, a “**Billing Authorization Letter re: Accounts**”), in writing, from the account debtor in substantially the form attached as Schedule 1.34(f) hereto and in form and substance satisfactory to Agent, confirming the unconditional obligation of the account debtor to take delivery of the goods related thereto and pay such invoice without set-off of any kind;
 - (g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of set-off against such Accounts; provided, however (i) the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by Canadian Borrower to such account debtor or claimed owed by such account debtor may be deemed Eligible Accounts and (ii) if Agent shall have received an agreement (each, a “**No-Offset Agreement re: Accounts**”), in writing, from the account debtor in substantially the form attached as Schedule 1.34(g) hereto and in form and substance satisfactory to Agent, waiving any and all rights of set-off of or in respect of such Accounts, such Accounts may be deemed Eligible Accounts;
 - (h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
 - (i) such Accounts are subject to the first priority, valid and perfected Lien in favour of Agent and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any Liens except those permitted in this Agreement;
 - (j) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an officer, employee or agent of or affiliated with Canadian Borrower directly or indirectly by virtue of family membership, ownership, control, management or otherwise;
 - (k) the account debtors with respect to such Accounts are not any foreign government, the federal government of Canada, any Province, political subdivision, department, agency or instrumentality thereof unless, upon Agent’s request, the *Financial Administration Act* (Canada) or any similar, federal, provincial or local law, if applicable, has been complied with in a manner satisfactory to Agent;
 - (l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor’s financial condition;
 - (m) such Accounts of a single account debtor or its affiliates do not constitute more than thirty (30%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such thirty (30%) percent threshold may be deemed Eligible Accounts;

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- (n) such Accounts are not owed by an account debtor who has Accounts unpaid more than ninety (90) days after the date of the original invoice for them which constitute more than fifty (50%) percent of the total Accounts of such account debtor;
 - (o) such Accounts are owed by account debtors whose total indebtedness to Canadian Borrower does not exceed the credit limit with respect to such account debtors as determined by Agent from time to time (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Accounts);
 - (p) such Accounts are owed by account debtors deemed creditworthy at all times by Agent, as determined by Agent.

General criteria for Eligible Accounts may be established and revised from time to time by Agent. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.35 “Eligible Inventory”

“**Eligible Inventory**” shall mean Inventory consisting of finished goods held for resale in the ordinary course of the business of Canadian Borrower and raw materials for such finished goods which are acceptable to Agent based on the criteria set forth below. In general, Eligible Inventory shall not include (a) work-in-process including components which are not part of finished goods; (b) spare parts for equipment; (c) packaging and shipping materials; (d) supplies used or consumed in Canadian Borrower’s business; (e) Inventory at premises which are not owned and controlled by Canadian Borrower, except if: (A) in respect of Inventory located at Major Customer Designated Facilities, Agent shall have received, in writing, inventory purchase agreements (each, an “**Inventory Purchase Agreement**”), in substantially the form attached as Schedule 1.35 hereto and in form and substance satisfactory to Agent, executed by the relevant Major Customer, Canadian Borrower, Agent and any other necessary party; and (B) in respect of all other Inventory at premises which are not owned and controlled by Canadian Borrower, Agent shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Agent acknowledging Agent’s first priority Lien in the Inventory, waiving all Liens and claims by such person against the Inventory and permitting Agent access to, and the right to remain on, the premises so as to exercise Agent’s and/or Lender’s rights and remedies and otherwise deal with the Collateral; (f) Inventory subject to a Lien in favour of any person other than Agent except those permitted in this Agreement; (g) bill and hold goods; (h) unserviceable, obsolete, expired or slow moving Inventory; (i) Inventory which is not subject to the first priority, valid and perfected Lien of Agent; (j) returned, damaged and/or defective Inventory; (k) Inventory purchased or sold on consignment; and (l) subject to paragraph (e)(A) immediately above, Inventory located outside of Canada including Inventory located in Chihuahua, Mexico.

General criteria for Eligible Inventory may be established and revised from time to time by Agent. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.36 “Enforcement Action”

“**Enforcement Action**” shall mean the exercise by Agent (or its assignee, designee, affiliates or agents) in good faith and in a commercially reasonable manner of any of its material enforcement rights and remedies as a secured creditor under this Agreement or other Financing Agreements, applicable law or otherwise, in respect of any of the Collateral including the Mexican Obligor Collateral, at any time following the occurrence of an Event of Default.

1.37 “Environmental Laws”

“**Environmental Laws**” shall mean with respect to any Person all federal (US and Canada), state, provincial, district, local, municipal and foreign laws, statutes, rules, regulations, ordinances, orders, directives, permits, licenses and consent decrees relating to health, safety, hazardous, dangerous or toxic substances, waste or material, pollution and environmental matters, as now or at any time hereafter in effect, applicable to such Person and/or its business and facilities (whether or not owned by it), including laws relating to emissions, discharges, releases or threatened releases of pollutants, contamination, chemicals, or hazardous, toxic or dangerous substances, materials or wastes into the environment (including ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals, or hazardous, toxic or dangerous substances, materials or wastes. The term “**Environmental Laws**” includes (i) the *Canadian Environmental Assessment Act*, the *Canadian Environmental Protection Act*, the *Environmental Assessment Act* (Ontario) and the *Environmental Protection Act* (Ontario), (ii) applicable state or provincial counterparts to such laws and (iii) any common law or equitable doctrine that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Materials.

1.38 “Equipment”

“**Equipment**” shall mean all of Canadian Borrower’s now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.39 “Equity Offering”

“**Equity Offering**” shall mean any issuance of shares or equity interests of SMTC Corporation on terms and conditions approved in writing by Agent and Tranche B Agent.

1.40 “Equivalent Amount”

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

1.41 “Excess Cash Flow”

“**Excess Cash Flow**” shall mean, in respect of any fiscal year of SMTC Corporation, EBITDA for SMTC Corporation and its Subsidiaries, calculated on a consolidated basis and in accordance with GAAP, less, to the extent not already deducted in determining such EBITDA: (A) interest and loan servicing fees paid or payable in respect of indebtedness during such period; (B) income taxes paid or payable for such period; (C) principal payments in respect of term indebtedness during such period; and (D) capital expenditures made in such fiscal year (plus capital expenditures permitted to be carried forward to the next fiscal year pursuant to Section 0) pursuant to the Financing Agreements and US Financing Agreements during such period.

1.42 “Existing Security”

“**Existing Security**” shall mean the Liens granted pursuant to the Existing Security Agreements.

1.43 “Existing Security Agreements”

“**Existing Security Agreements**” shall mean the security agreements described on Schedule 1.43 hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.44 “Event of Default”

“**Event of Default**” shall mean the occurrence or existence of any event or condition described in Section 9.1 hereof.

1.45 “Financing Agreements”

“**Financing Agreements**” shall mean, collectively, this Agreement, the General Security Agreement, the Mexican Negative Pledge Agreement, the Mexican Undertaking, the Mexican Security Documents, the Hedge Agreements, Tranche B Loan Fee Letter and all notes, guarantees, security agreements, charges, mortgages, pledges, assignments and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Canadian Borrower or any Obligor in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.46 “Fixed Charge Coverage Ratio”

“**Fixed Charge Coverage Ratio**” shall mean, with respect to SMTC Corporation and its Subsidiaries on a consolidated basis for any period determined in accordance with GAAP, the ratio of (a) EBITDA for such period less unfunded capital expenditures for such period to (b) the sum of all Fixed Charges for such period.

1.47 “Fixed Charges”

“**Fixed Charges**” shall mean, with respect to SMTC Corporation and its subsidiaries on a consolidated basis for any period determined in accordance with GAAP, (a) the aggregate of all Interest Expense payable in cash for such period, plus (b) the cash portion of dividends paid by SMTC Corporation and its Subsidiaries during such period, plus (c) scheduled principal

payments, Capital Lease payments, deferred obligations to reimburse a letter of credit issuing bank after a draw on such letter of credit and redemption obligations of indebtedness which, in each case, were originally scheduled to be paid in cash during such period, plus (d) taxes payable in cash for such period.

1.48 “Full Control Notice”

“Full Control Notice” shall have the meaning set forth in Section 5.3 hereof.

1.49 “GAAP”

“GAAP” shall mean generally accepted accounting principles in the US as in effect from time to time as set forth in the opinions and pronouncements of the relevant US public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied.

1.50 “General Security Agreement”

“General Security Agreement” shall mean the general security agreement dated June 1, 2004 given by Canadian Borrower in favour of Agent in respect of the Obligations, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.51 “Hazardous Materials”

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

1.52 “Hedge Agreement”

“Hedge Agreement” shall mean a contract with Revolving Lender or its Affiliates for the purchase of any currency with any other currency at an agreed rate of exchange on a specified date, an interest rate or currency swap or any other interest or exchange rate exposure management arrangements.

1.53 “Hedging Liabilities”

“Hedging Liabilities” shall mean, with respect to Canadian Borrower and with respect to Revolving Lender or its Affiliates at any date of calculation, an amount equal to the aggregate of all amounts that would be owing to it by Canadian Borrower, on an aggregate basis under all Hedge Agreements if those agreements were terminated on the date of calculation. Unless netting or setting off is not permitted as a result of the operation of law or judicial authority, the

Hedging Liabilities of Canadian Borrower shall equal the amount so determined after netting or setting off any amounts which might be owing under the Hedge Agreements by Revolving Lender or its Affiliates to Canadian Borrower on that date. If netting or setting off is not permitted as a result of the operation of law or judicial authority, the Hedging Liabilities of Canadian Borrower shall equal the amount owing by Canadian Borrower to Revolving Lender or its Affiliates under all such Hedge Agreements without netting or setting off any amounts which might be owing by Revolving Lender or its Affiliates to Canadian Borrower under the Hedge Agreements on that date.

1.54 “HTM”

“HTM” shall mean HTM Holdings, Inc., a Delaware corporation.

1.55 “Inactive Subsidiaries”

“Inactive Subsidiaries” shall mean, collectively, SMTC Manufacturing Corporation of Colorado, a Colorado corporation, Qualtron Inc., a Massachusetts corporation, SMTC Ireland Company, an Irish corporation, SMTC Manufacturing Corporation of Ireland Limited, an Irish corporation, SMTC Teoranta, an Irish corporation, SMTC R&D Teoranta, an Irish corporation, SMTC Mexico, S.A. de C.V., a Mexican corporation, 940862 Ontario Inc., an Ontario corporation, SMTC Manufacturing Corporation of Wisconsin, a Wisconsin corporation, SMTC Manufacturing Corporation of North Carolina, a North Carolina corporation, and SMTC Manufacturing Corporation of Texas, a Texas corporation and “Inactive Subsidiary” shall mean any one of them individually.

1.56 “Information Certificate”

“Information Certificate” shall mean the Information Certificate of Canadian Borrower constituting Exhibit A hereto containing information with respect to Canadian Borrower and each Obligor, their respective business and assets provided by or on behalf of Canadian Borrower to Agent, Tranche B Agent, US Agent, US Tranche B Agent and Canadian Lenders in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.57 “Interest Expense”

“Interest Expense” shall mean, with respect to SMTC Corporation and its Subsidiaries, on a consolidated basis for any period, interest expense (whether cash or non-cash) as to any Person, as determined in accordance with GAAP.

1.58 “Interest Payment Date”

“Interest Payment Date” shall mean the first Business Day of each calendar month, the first Interest Payment Date being September 3, 2007 and the last Interest Payment Date being the Maturity Date.

1.59 “Interest Period”

“**Interest Period**” shall mean a period, the first being the period from and including the Closing Date to and including September 3, 2007 and thereafter being each period of one month from and including the Interest Payment Date except that Canadian Borrower may not elect an Interest Period which will end after the Maturity Date.

1.60 “Interest Rate”

“**Interest Rate**” shall mean an annual rate of interest equal to the Canadian Prime Rate for Revolving Loans and other non-contingent US Dollar denominated Obligations (other than the Tranche B Loan); provided that “**Interest Rate**” shall mean an annual rate of interest of three (3%) percent per annum in excess of the Canadian Prime Rate for Revolving Loans, at Agent’s option, without notice, (A) on non-contingent Obligations (i) for the period on and after the date of termination or non-renewal of the Revolving Loans until such time as Revolving Lender and Agent have received full and final payment of all such Obligations and (ii) for the period from and after the date of the occurrence of an Event of Default so long as such Event of Default is continuing as determined by Agent (notwithstanding entry of any judgment against Canadian Borrower) and (B) on the Revolving Loans at any time outstanding in excess of the amounts available to Canadian Borrower under Section 2 hereof (whether or not such excess(es) arise or are made with or without Agent’s knowledge or consent and whether made before or after an Event of Default) (a “**Revolving Loans Excess Position**”) until such time as the Revolving Loans outstanding are no longer in a Revolving Loans Excess Position; provided however, in the event the Revolving Loans are in a Revolving Loans Excess Position solely as a result of a subjective exercise of Agent’s discretion to revise the Availability Reserves pursuant to Section 2 hereof and absent objective circumstances or events to justify same, the Interest Rate for the purposes of subparagraph (B) shall come into effect on the fifth (5) Business Day following written notice of same given by Agent to Canadian Borrower.

1.61 “Inventory”

“**Inventory**” shall mean all of Canadian Borrower’s now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.62 “ISDA”

“**ISDA**” shall mean International Swaps and Derivatives Association, Inc.

1.63 “ITA”

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

1.64 “Junior Participation”

“**Junior Participation**” shall have the meaning set forth in Section 5.4(b) hereof.

1.65 “Leased Real Property”

“**Leased Real Property**” means, collectively, all real property which is subject to a lease, agreement to lease, tenancy, license and/or other occupancy agreement with respect to all or any part of such real property and in respect of which Canadian Borrower and/or any Obligor is a tenant, lessee, licensee and/or occupant.

1.66 “Letter of Credit Accommodations”

“**Letter of Credit Accommodations**” shall mean the letters of credit, merchandise purchase or other guarantees denominated in US Dollars which are from time to time either (a) issued or opened by Revolving Lender for the account of Canadian Borrower or any Obligors or (b) with respect to which Revolving Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by Canadian Borrower of its obligations to such issuer.

1.67 “Libor Rate”

“**Libor Rate**” shall mean, for each Interest Period, the rate of interest per annum (expressed as a percentage on the basis of a 360-day year) being the rate published as the London interbank offered rate in The Wall Street Journal, Eastern Edition on the day which is two (2) Business Days before the first day of such Interest Period for offering deposits in US Dollars for a period comparable to the applicable Interest Period and if for any reason, the London interbank offered rate is not available in the Wall Street Journal, Eastern Edition, then the Libor Rate will be the rate of interest per annum (expressed as a percentage calculated on the basis of a 360-day year) equal to the average (rounded upward to the nearest whole multiple of 1/16 of one (1%) percent per annum) of the rates per annum which leading banks in the London interbank markets are offering deposits in US Dollars and for the said amount for a period equal to the relevant Interest Period appearing on the Reuters Screen LIBO Page (at or about 11:00 a.m. London time) on the day which is two (2) Business Days before the first day of such Interest Period; provided that, at no time following the first full year after the Closing Date shall the Libor Rate for any Interest Period be less than three and one half (3.5%) percent per annum.

1.68 “Libor Rate Loan”

“**Libor Rate Loan**” shall mean any portion of the Tranche B Loan on which interest is payable based on the Adjusted Libor Rate in accordance with the terms hereof.

1.69 “Lien”

“**Lien**” shall mean any mortgage, deed of trust, pledge, fixed or floating charge, lien, security interest, hypothec or encumbrance or security arrangement of any nature whatsoever, whether arising by written or oral agreement or by operation of law, including but not limited to any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

1.70 “Loans”

“**Loans**” shall mean the Revolving Loans and the Tranche B Loan.

1.71 “Major Customer”

“Major Customer” shall mean Harris Corporation, MEI, Inc., Ingenico SA and IBM subject to Agent being satisfied, in its sole discretion, with the creditworthiness of such Person.

1.72 “Major Customer Designated Facilities”

“Major Customer Designated Facilities” means the business locations owned, leased and/or operated by a Major Customer as more particularly set forth in Schedule 1.72.

1.73 “Mark to Market Exposure”

“Mark to Market Exposure” in connection with Canadian Borrower’s liability under its Hedge Agreements means, as at the Measurement Date, the “Early Termination Amount” that would be payable by Canadian Borrower under such Hedge Agreements as though such day was an “Early Termination Date” and the “Transaction” was a “Terminated Transaction” in accordance with the payment measures provided for in Section 6(e)(i) of the 2002 ISDA Master Agreement as published by ISDA as amended or replaced from time to time. For the purposes of this Agreement, such liability shall be expressed in the US Dollar Amount as at the end of any such month. Furthermore, the amount of such liability shall be established by Agent in good faith after consultation with the relevant counterparties to such Hedge Agreements who themselves shall determine same in accordance with the aforementioned payment measures.

1.74 “Material Adverse Effect”

“Material Adverse Effect” shall mean a material adverse effect on (a) the business, assets, operations, prospects or financial condition of Canadian Borrower or any Obligor; (b) Canadian Borrower’s or any Obligor’s ability to pay any of the Loans or any of the other Obligations in accordance with the terms of this Agreement; (c) the Agent’s Liens in the Collateral or the priority, effectiveness or enforceability of such Liens; or (d) Agent’s or Canadian Lenders’ or Tranche B Agent’s rights or remedies under this Agreement and the other Financing Agreements.

1.75 “Maturity Date”

“Maturity Date” shall mean the date which is the earlier to occur of (i) the day 5 years and 1 day from the Closing Date and (ii) the termination of this Agreement following an Event of Default pursuant to the terms hereof.

1.76 “Measurement Date”

“Measurement Date” shall mean the last Business Day of the prior calendar month or such other date as Agent may determine in its sole discretion.

1.77 “Mexican Negative Pledge Agreement”

“Mexican Negative Pledge Agreement” shall mean the negative pledge agreement dated June 1, 2004 made by Mexican Obligors in favour of certain US Lenders and Canadian Revolving Lender, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.78 “Mexican Obligor Collateral”

“**Mexican Obligor Collateral**” shall mean (a) all of the undertaking, property and assets, present and future, real and personal, of each of the Mexican Obligors and (b) inventory, machinery, equipment, shares and leasehold improvements owned by SMTC Mex Holdings, Inc. located in Mexico (excluding however any Account of SMTC Mex Holdings, Inc. arising from the sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business before the occurrence of a Priority Event), in each case now or hereafter pledged, charged, assigned, transferred and/or encumbered to secure, either directly or indirectly, repayment of any of the Obligations.

1.79 “Mexican Obligors”

“**Mexican Obligors**” shall mean each of SMTC de Chihuahua, S.A. de C.V. and Radio Componentes de Mexico, S.A. de C.V.

1.80 “Mexican Security Documents”

“**Mexican Security Documents**” shall mean the security documents set forth on Schedule 1.80 attached hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.81 “Mexican Undertaking”

“**Mexican Undertaking**” shall mean the undertaking dated June 1, 2004 given by SMTC Corporation and others in favour of certain US Lenders with respect to Mexican Obligors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.82 “Monroe”

“**Monroe**” shall mean Monroe Capital Management Advisors LLC.

1.83 “Moody’s”

“**Moody’s**” shall mean Moody’s Investor Services, Inc., or any successor thereto.

1.84 “Net Amount of Eligible Accounts”

“**Net Amount of Eligible Accounts**” shall mean the gross US Dollar Amount of Eligible Accounts less: (a) sales, excise or similar taxes included in the amount thereof; and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect to such Eligible Accounts; provided that the amounts deducted under clause (a) shall not duplicate items for which Availability Reserves have been established by Agent.

1.85 “Obligations”

“**Obligations**” shall mean any and all Loans, Letter of Credit Accommodations, Hedging Liabilities and all other obligations, liabilities and indebtedness of every kind, nature and description owing by Canadian Borrower or any Obligor to any of Agent, Tranche B Agent or Canadian Lenders (and/or their affiliates with respect to Hedging Liabilities), including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement and the other Financing Agreements or applicable laws whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any proceeding with respect to Canadian Borrower or any Obligor under the BIA or CCAA or any similar statute in any jurisdiction (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured.

1.86 “Obligor”

“**Obligor**” shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Canadian Borrower.

1.87 “Officer’s Compliance Certificate”

“**Officer’s Compliance Certificate**” shall have the meaning set forth in Section 8.6(a) hereof.

1.88 “Original Canadian Loan Agreement”

“**Original Canadian Loan Agreement**” shall have the meaning set forth in the preamble to this Agreement.

1.89 “Original US Loan Agreement”

“**Original US Loan Agreement**” shall mean the US Loan Agreement dated as of June 1, 2004 between US Agent, US Revolving Lender and US Borrowers as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 17, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 30, 2006.

1.90 “Payment Account”

“**Payment Account**” shall have the meaning set forth in Section 5.3(a) hereof.

1.91 “Pension Plans”

“**Pension Plans**” shall mean each of the pension plans, if any, registered in accordance with the ITA which Canadian Borrower sponsors or administers or into which Canadian Borrower makes contributions.

1.92 “Person” or “person”

“Person” or “person” shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.93 “PPSA”

“PPSA” shall mean the *Personal Property Security Act* (Ontario), as amended, supplemented, restated and superseded, in whole or in part, from time to time, provided that, if the attachment, perfection or priority of Agent’s security in respect of any Collateral is governed by the laws of any jurisdiction other than Ontario, PPSA shall mean those other laws for the purposes hereof relating to attachment, perfection or priority.

1.94 “Priority Event”

“Priority Event” shall mean the occurrence of any one or more of the following: (i) the occurrence and continuance of an Event of Default under Section 9.1(a) hereof with respect to Canadian Borrower’s failure to pay any of the Obligations arising pursuant to the Revolving Loans (including principal, interest, fees and expenses attributable thereto); (ii) the occurrence and continuance of an Event of Default under Sections 9.1(f), 9.1(g), 9.1(h) or 9.1(u) hereof; (iii) the occurrence of any other Event of Default and the acceleration by Agent of the payment of all or a material portion of the Obligations; (iv) Agent shall have received a Tranche B Loan Action Default Notice; (v) Canadian Borrower failure to make a repayment of the Tranche B Loan from Excess Cash Flow within thirty (30) days pursuant to Section 2.3(b)(ii) hereof; or (vi) the occurrence and continuance of a US Priority Event.

1.95 “Priority Payables Reserve”

“Priority Payables Reserve” shall mean, at any time, the full amount of the liabilities at such time which have a trust imposed to provide for payment or Lien ranking or capable of ranking senior to or *pari passu* with Liens or charges securing the Obligations on any of the Collateral under federal, provincial, state, county, municipal, or local law including, but not limited, to claims for unremitted and accelerated rents, taxes, wages, vacation pay, workers’ compensation obligations, government royalties or pension fund obligations, together with the aggregate value, determined in accordance with GAAP, of all Eligible Inventory which Agent considers may be or may become subject to a right of a supplier to recover possession thereof under any federal, provincial, state, county, municipal or local law, where such supplier’s right may have priority over the Liens securing the Obligations including Eligible Inventory subject to a right of a supplier to repossess goods pursuant to Section 81.1 of the BIA, CCAA or any applicable reorganization or insolvency legislation.

1.96 “Provision for Taxes”

“Provision for Taxes” shall mean an amount equal to all taxes imposed on or measured by net income, whether federal, state, provincial, county or local, and whether foreign or domestic, that are paid or payable by any Person in respect of any period in accordance with GAAP.

1.97 “Real Property”

“**Real Property**” shall mean all now owned and hereafter acquired real property of Canadian Borrower, including leasehold interests, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located.

1.98 “Records”

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

1.99 “Reference Rate”

“**Reference Rate**” means, for any day, the rate of interest in effect for such day as publicly announced by a commercial bank selected by Tranche B Agent from time to time at such location as selected by Tranche B Agent as its “prime rate” (the “**prime rate**” being a rate (which is not necessarily the lowest of such rates) based upon various factors including such commercial bank’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate).

1.100 “Reference Rate Loans”

“**Reference Rate Loans**” shall mean any portion of a Tranche B Loan thereof on which interest is payable based on the Reference Rate in accordance with the terms hereof.

1.101 “Register”

“**Register**” shall have the meaning set forth in Section 11.4(e) hereof.

1.102 “Registered Tranche B Loan”

“**Registered Tranche B Loan**” shall have the meaning set forth in Section 2.3(d) hereof.

1.103 “Registered Tranche B Loan Note”

“**Registered Tranche B Loan Note**” shall have the meaning set forth in Section 2.3(d) hereof.

1.104 “Required Lenders”

“**Required Lenders**” shall mean, at any time, (a) Canadian Lenders who hold at least 50.1% of the commitment to make Revolving Loans or, if the commitment to make Revolving Loans has been terminated, the principal amount of the Revolving Loans and (b) Canadian Lenders who hold at least 50.1% of the principal amount of the Tranche B Loan.

1.105 “Required Tranche B Lenders”

“Required Tranche B Lenders” shall mean, at any time, Tranche B Lenders who hold at least 50.1% of the principal amount of the Tranche B Loan.

1.106 “Revolving Lender”

“Revolving Lender” shall have the meaning set forth in the preamble to this Agreement.

1.107 “Revolving Loan Priority Collateral”

“Revolving Loan Priority Collateral” shall mean all of the undertaking, property and assets, present and future, of each Obligor set forth on Schedule 1.107 hereto including the Accounts and Inventory but excluding (a) the Mexican Obligor Collateral and (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral.

1.108 “Revolving Loans”

“Revolving Loans” shall mean the loans now or hereafter made by Canadian Revolving Lender to or for the benefit of Canadian Borrower on a revolving basis (including advances, repayments and readvances) as set forth in Section 2.1 hereof.

1.109 “S&P”

“S&P” shall mean Standard & Poor’s Ratings Group, a division of McGraw-Hill, Inc., or any successor thereto.

1.110 “SMTC Corporation”

“SMTC Corporation” shall mean SMTC Corporation, a Delaware corporation.

1.111 “Solvent”

“Solvent” shall mean, at any time with respect to any Person, that at such time such Person (a) is able to pay its debts as they mature and has (and has a reasonable basis to believe it will continue to have) sufficient capital (and not unreasonably small capital) to carry on its business consistent with its practices as of the Closing Date, and (b) the assets and properties of such Person at a fair valuation (and including as assets for this purpose at a fair valuation all rights of subrogation, contribution or indemnification arising pursuant to any guarantees given by such Person) are greater than the indebtedness of such Person, and including subordinated and contingent liabilities computed at the amount which, such person has a reasonable basis to believe, represents an amount which can reasonably be expected to become an actual or matured liability (and including as to contingent liabilities arising pursuant to any guarantee the face amount of such liability as reduced to reflect the probability of it becoming a matured liability).

1.112 “Special Agent Advances”

“Special Agent Advances” shall have the meaning set forth in Section 12.10(a) hereof.

1.113 “Special Tranche B Agent Advances”

“Special Tranche B Agent Advances” shall have the meaning set forth in Section 12.10(b) hereof.

1.114 “Spot Rate”

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

1.115 “Subsidiaries”

“Subsidiaries” shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person.

1.116 “Total Debt”

“Total Debt” shall mean, at any time, the outstanding amount of the Obligations and all other obligations, liabilities and indebtedness of SMTC Corporation and its Subsidiaries, calculated on a consolidated basis and in accordance with GAAP, secured by valid and perfected first priority Liens on any property, assets or undertaking of such Persons.

1.117 “Total Excess Availability”

“Total Excess Availability” shall mean the US Dollar Amount, as determined by Agent calculated at any time, of the sum of Canadian Excess Availability and US Excess Availability.

1.118 “Total Leverage Ratio”

“Total Leverage Ratio” shall mean, at any time, the ratio of Total Debt to the rolling four (4) quarter EBITDA of SMTC Corporation and its Subsidiaries calculated on a consolidated basis and in accordance with GAAP.

1.119 “Tranche B Agent”

“Tranche B Agent” shall have the meaning set forth in the preamble to this Agreement.

1.120 “Tranche B Lenders”

“Tranche B Lenders” shall have the meaning set forth in the preamble to this Agreement.

1.121 “Tranche B Loan”

“Tranche B Loan” shall mean the term loan made by Tranche B Lenders to Canadian Borrower pursuant to Section 2.3 hereof.

1.122 “Tranche B Loan Action Default”

“Tranche B Loan Action Default” shall mean an Event of Default under Section 9.1(a) with respect to the failure to pay when due any of the Obligations, Sections 9.1(d), 9.1(f), 9.1(g), 9.1(h), 9.1(i), 9.1(j), 9.1(k), 9.1(q) or 9.1(t) or 9.1(a) with respect to the failure to perform any terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements (to the extent arising as a result of the failure to comply with Section 8.1(a) with respect to the failure to preserve, renew and keep in full force and effect is corporate existence, Sections 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.18, 8.19, 8.22, 8.23, 8.24, 0 or 8.26 hereof) in each case after giving effect to all applicable cure periods, if any.

1.123 “Tranche B Loan Action Default Notice”

“Tranche B Loan Action Default Notice” shall mean a written notice executed and delivered by Tranche B Agent to Agent of a Tranche B Loan Action Default and requesting that Agent demand payment of the Obligations and commence Enforcement Actions.

1.124 “Tranche B Loan Interest Rate”

“Tranche B Loan Interest Rate” shall mean: (a) the Adjusted Libor Rate for the applicable Interest Period plus the Applicable Margin for Libor Rate Loans; and (b) the Reference Rate plus the Applicable Margin for Reference Rate Loans; provided that “Tranche B Loan Interest Rate” shall mean an annual rate of interest of four (4%) percent per annum in excess (x) of the Adjusted Libor Rate for the applicable Interest Period plus the Applicable Margin for Libor Rate Loans or (y) the Reference Rate plus the Applicable Margin for Reference Rate Loans, as the case may be, at Tranche B Agent’s option, without notice, on all Obligations for the payment of money (i) for the period on and after the date of termination or non-renewal hereof until such time as Tranche B Agent has received full and final payment of all such Obligations and (ii) for the period from and after the date of the occurrence of an Event of Default so long as such Event of Default is continuing as determined by Tranche B Agent (notwithstanding entry of any judgment against Canadian Borrower).

1.125 “Tranche B Loan Fee Letter”

“Tranche B Loan Fee Letter” shall mean the fee letter dated the Closing Date between Canadian Borrower and Tranche B Agent, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.126 “Tranche B Loan Priority Collateral”

“**Tranche B Loan Priority Collateral**” shall mean all of the undertaking, property and assets, present and future, real and personal, of each Obligor including the Mexican Obligor Collateral other than the Revolving Loan Priority Collateral.

1.127 “US”

“**US**” shall mean the United States of America.

1.128 “US Advances”

“**US Advances**” shall mean, collectively, as of the date of determination, the aggregate outstanding amount of all loans and advances under the US Loan Agreement as of such date.

1.129 “US Agent”

“**US Agent**” shall mean Wachovia Capital Finance Corporation (Central), formerly known as Congress Financial Corporation (Central), in its capacity as agent, pursuant to the terms of the US Loan Agreement and any replacement or successor agent thereunder.

1.130 “US Availability Reserves”

“**US Availability Reserves**” shall mean “Availability Reserves” as such term is defined under the US Loan Agreement.

1.131 “US Borrowers”

“**US Borrowers**” shall mean, collectively, SMTC Manufacturing Corporation of California, a California corporation, SMTC Manufacturing Corporation of Massachusetts, a Massachusetts corporation, and SMTC Mex Holdings, Inc., a Delaware corporation, and “**US Borrower**” shall mean any one of them individually.

1.132 “US Borrowing Base”

“**US Borrowing Base**” shall mean the “**Borrowing Base**” as such term is defined under the US Loan Agreement.

1.133 “US Dollar Amount”

“**US Dollar Amount**” shall mean, at any time, (a) as to any amount denominated in US Dollars, the amount thereof at such time and (b) as to any amount denominated in any other currency, the Equivalent Amount in US Dollars.

1.134 “US Eligible Accounts”

“**US Eligible Accounts**” shall mean “**Eligible Accounts**” as such term is defined under the US Loan Agreement.

1.135 “US Excess Availability”

“**US Excess Availability**” shall mean the US Dollar Amount, as determined by Agent, calculated at any time, equal to: (a) the lesser of: (i) the US Borrowing Base subject to the sublimits and US Availability Reserves established by US Agent from time to time under the US Loan Agreement and (ii) the US Revolving Maximum Credit (less the Mark to Market Exposure of US Borrowers under all their Hedge Agreements) minus (b) the sum of: (i) the US Dollar Amount of all then outstanding and unpaid US Revolving Loans and US Letter of Credit Accommodations plus (ii) the aggregate amount of (x) all due but unpaid tax obligations as of such time and (y) all trade payables of US Borrowers that are past due for more than 60 days as of such time.

1.136 “US Financing Agreements”

“**US Financing Agreements**” shall mean “**Financing Agreements**” as such term is defined under the US Loan Agreement.

1.137 “US Hedge Agreements”

“**US Hedge Agreements**” shall mean “**Hedge Agreements**” as such term is defined under the US Loan Agreement.

1.138 “US Hedging Liabilities”

“**US Hedging Liabilities**” shall mean “**Hedging Liabilities**” as such term is defined under the US Loan Agreement.

1.139 “US Lenders”

“**US Lenders**” shall collectively mean Wachovia Capital Finance Corporation (Central) and US Tranche B Lenders as lenders pursuant to the US Loan Agreement.

1.140 “US Letter of Credit Accommodations”

“**US Letter of Credit Accommodations**” shall mean letters of credit, merchandise purchase or other guarantees issued or arranged by US Revolving Lender for US Borrowers or any Obligor under or in connection with the US Financing Agreements.

1.141 “US Loan Agreement”

“**US Loan Agreement**” shall mean the Amended and Restated US Loan Agreement dated the Closing Date between US Borrowers, US Agent, US Tranche B Agent and US Lenders, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.142 “US Loans”

“**US Loans**” shall mean the “**Loans**” as such term is defined under the US Loan Agreement.

1.143 “US Mark to Market Exposure”

“US Mark to Market Exposure” shall mean “Mark to Market Exposure” as such term is defined under the US Loan Agreement.

1.144 “US Obligations”

“US Obligations” shall mean the “Obligations” as such term is defined under the US Loan Agreement.

1.145 “US Prime Rate”

“US Prime Rate” shall mean the rate announced by Wachovia Bank, National Association, or its successors, from time to time as its prime rate in effect for US Dollar denominated commercial loans, whether or not such announced rate is the best rate available at such bank.

1.146 “US Priority Event”

“US Priority Event” shall mean the “Priority Event” as such term is defined under the US Loan Agreement.

1.147 “US Revolving Lender”

“US Revolving Lender” shall mean “Revolving Lender” as such term is defined under the US Loan Agreement.

1.148 “US Revolving Loans”

“US Revolving Loans” shall mean “Revolving Loans” as such term is defined in the US Loan Agreement.

1.149 “US Revolving Maximum Credit”

“US Revolving Maximum Credit” shall mean US\$40,000,000 minus the outstanding Revolving Loans, Letter of Credit Accommodations and Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements. For greater certainty, the aggregate of the US Revolving Maximum Credit and the Canadian Revolving Maximum Credit shall at no time exceed US\$40,000,000.

1.150 “US Tranche B Agent”

“US Tranche B Agent” shall mean Monroe Capital Management Advisors LLC as agent for the lenders of the US Tranche B Loan.

1.151 “US Special Agent Advances”

“US Special Agent Advances” shall mean “Special Agent Advances” as such term is defined in the US Loan Agreement.

1.152 “US Special Tranche B Agent Advances”

“US Special Tranche B Agent Advances” shall mean “Special Tranche B Agent Advances” as such term is defined in the US Loan Agreement.

1.153 “US Tranche B Loan”

“US Tranche B Loan” shall mean “Tranche B Loan” as such term is defined in the US Loan Agreement.

1.154 “US Tranche B Lenders”

“US Tranche B Lenders” shall mean “Tranche B Lenders” as such term is defined under the US Loan Agreement.

1.155 “Value”

“Value” shall mean the US Dollar Amount, as determined by Agent, with respect to Inventory, of the lower of (a) cost computed on a first-in-first-out basis in accordance with GAAP or (b) market value.

1.156 “Wachovia”

“Wachovia” shall mean Wachovia Capital Finance Corporation (Canada).

Section 2 Credit Facilities

2.1 Revolving Loans

- (a) Subject to, and upon the terms and conditions contained herein, Revolving Lender agrees to make Revolving Loans to Canadian Borrower from time to time in amounts requested by Canadian Borrower; provided that the aggregate outstanding US Dollar Amount of Revolving Loans and Letter of Credit Accommodations to Canadian Borrower at any time do not exceed the lesser of: (i) the Borrowing Base at such time or (ii) the Canadian Revolving Maximum Credit less the Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements.
- (b) Agent may, in its reasonable credit judgment, from time to time: (i) reduce the lending formula with respect to Eligible Accounts to the extent that Agent determines that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may be anticipated to increase in any material respect above historical levels or exceeds five (5%) percent; or (B) the general creditworthiness of account debtors has declined; or (ii) reduce the lending formula(s) with respect to Eligible Inventory to the extent that Agent determines that: (A) the number of days of the turnover of the Inventory for any period has

changed in any material respect or (B) the liquidation value of the Eligible Inventory, or any category thereof, has decreased, or (C) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the lending formula(s), Agent may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory or in establishing Availability Reserves.

- (c) Except in Agent's discretion pursuant to Section 12.10 with respect to Special Agent Advances, the aggregate amount of the Revolving Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the Canadian Revolving Maximum Credit less the Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements. In the event that the outstanding amount of any component of the Revolving Loans, or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations, exceed the amounts available under the lending formulas, the sublimits for Letter of Credit Accommodations set forth in Section 2.2(d) or the Canadian Revolving Maximum Credit (less the Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements), as applicable, such event shall not limit, waive or otherwise affect any rights of Revolving Lender or Agent in such circumstances or on any future occasions and Canadian Borrower shall (except as otherwise provided herein), immediately repay to Agent the entire amount of any such excess(es) for which payment is demanded.

2.2 Letter of Credit Accommodations

- (a) Subject to, and upon the terms and conditions contained herein, at the request of Canadian Borrower, Agent, on behalf of Revolving Lender, agrees to provide or arrange for Letter of Credit Accommodations for the account of Canadian Borrower in US Dollars containing terms and conditions acceptable to Agent and the issuer thereof. Any payments made by Agent, on behalf of Revolving Lender, to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to such US Borrower pursuant to this Section 2. Canadian Borrower requesting such Letter of Credit Accommodation shall give Agent two (2) Business Days' prior written notice of Canadian Borrower's request for the issuance of a Letter of Credit Accommodation. Such notice shall be irrevocable and shall specify the original face amount of the Letter of Credit Accommodation requested, the effective date (which date shall be a Business Day and in no event shall be a date less than ten (10) days prior to the end of the then current term of this Agreement) of issuance of such requested Letter of Credit Accommodation, whether such Letter of Credit Accommodations may be drawn in a single or in partial draws, the date on which such requested Letter of Credit Accommodation is to expire (which date shall be a Business Day), the purpose for which such Letter of Credit Accommodation is to be issued, and the beneficiary of the requested Letter of Credit Accommodation. A Canadian Borrower requesting the Letter of Credit Accommodation shall attach to such notice the proposed terms of the Letter of Credit Accommodation.

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- (b) In addition to any actual charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender, a letter of credit fee at a rate equal to one (1.0%) percent per annum on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender, such letter of credit fee, at Agent's option, without notice, at a rate equal to three (3%) percent per annum on such daily outstanding balance for: (i) the period from and after the date of termination or non-renewal hereof until Agent and Revolving Lender have received full and final payment of all Obligations (notwithstanding entry of a judgment against Canadian Borrower) and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Agent. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Canadian Borrower to pay such fee shall survive the termination or non-renewal of this Agreement.
- (c) In addition to being subject to the satisfaction of the applicable conditions precedent contained in Section 4 hereof and the other terms and conditions contained herein, no Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, each of the following conditions precedent have been satisfied in a manner satisfactory to Agent: (i) Canadian Borrower requesting such Letter of Credit Accommodation shall have delivered to the proposed issuer of such Letter of Credit Accommodation at such times and in such manner as such proposed issuer may require, an application, in form and substance satisfactory to such proposed issuer, for the issuance of the Letter of Credit Accommodation and such other documents as may be required pursuant to the terms thereof, and the form and terms of the proposed Letter of Credit Accommodation shall be satisfactory to Agent and such proposed issuer, in each case of the foregoing, in the Agent's and/or proposed issuer's reasonable credit judgment, as applicable (ii) as of the date of issuance, no order of any court, arbitrator or other governmental authority shall purport by its terms to enjoin or restrain money center banks generally from issuing letters of credit of the type and in the amount of the proposed Letter of Credit Accommodation, and no law, rule or regulation applicable to money center banks generally and no request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over money center banks generally shall prohibit, or request that the proposed issuer of such Letter of Credit Accommodation refrain from, the issuance of letters of credit generally or the issuance of such Letters of Credit Accommodation, (iii) the Revolving Loans available to Canadian Borrower (subject to the Canadian Revolving Maximum Credit (less the Mark to Market Exposure of Canadian Borrower under all its Hedge Agreements) and any Availability Reserves) are equal to or greater than: (A) if the proposed Letter of Credit Accommodation is for the purpose of purchasing Eligible Inventory and all negotiable documents of title with respect to such Eligible Inventory have been consigned to Agent or the issuer of the Letter of Credit Accommodation, the sum of (1) the percentage equal to one hundred

(100%) percent minus the then applicable percentage (with reference to Sections 1.8 and 2.1(b) hereof) with respect to Eligible Inventory set forth in the definition of the term “**Borrowing Base**” multiplied by the Value of such Eligible Inventory, plus (2) freight, taxes, duty and other amounts which Agent estimates must be paid in connection with such Inventory upon arrival and for delivery to one of Canadian Borrower’s locations for Eligible Inventory within Canada and (B) if the proposed Letter of Credit Accommodation is for any other purpose or the documents of title are not consigned to the issuer in connection with a Letter of Credit Accommodation for the purpose of purchasing Inventory, an amount equal to one hundred (100%) percent of the face amount thereof and all other commitments and obligations made or incurred by Agent and Revolving Lender with respect thereto. Effective on the issuance of each Letter of Credit Accommodation, an Availability Reserve shall be established in the applicable amount set forth in Section 2.2(c)(iii)(A) or Section 2.2(c)(iii)(B).

- (d) Except in Agent’s discretion, (i) the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Agent and Revolving Lender in connection therewith, shall not at any time exceed US\$1,000,000. At any time an Event of Default exists or has occurred and is continuing, upon Agent’s request, Canadian Borrower will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Agent for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise available to Canadian Borrower shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.
- (e) Canadian Borrower shall indemnify and hold Agent and Revolving Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which each may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation, unless the losses, claims, damages, liabilities, costs and expenses suffered or incurred by Agent and/or Revolving Lender are due to the gross negligence or willful misconduct of Agent and/or Revolving Lender and/or its employees, officers, directors and authorized agents, as determined pursuant to a final non-appealable order of a court of competent jurisdiction. Canadian Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed Canadian Borrower’s agent. Canadian Borrower assumes all risks for, and agrees to pay, all foreign, federal, state, provincial, municipal and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Save and except to the extent that same arise or are due to the gross negligence or willful misconduct of Agent and/or Revolving Lender and/or its employees, officers, directors and authorized agents, as determined pursuant to a final non-appealable order of a court of competent jurisdiction, Canadian Borrower hereby releases and holds Agent and

Revolving Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by Canadian Borrower, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.

- (f) Canadian Borrower hereby irrevocably authorizes and directs any issuer of a Letter of Credit Accommodation to name Canadian Borrower as the account party therein and to deliver to Agent all instruments, documents and other writings and property received by issuer pursuant to the Letter of Credit Accommodations and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit Accommodations or the applications therefor. Nothing contained herein shall be deemed or construed to grant Canadian Borrower any right or authority to pledge the credit of Agent and/or Revolving Lender in any manner. Agent and Revolving Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Revolving Lender unless Revolving Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Canadian Borrower shall be bound by any interpretation made, in good faith by Agent, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of a Canadian Borrower. Agent shall have the sole and exclusive right and authority to, and Canadian Borrower shall not: (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, and (ii) at all times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Agent may take such actions either in its own name or in Canadian Borrower's name.
- (g) Any rights, remedies, duties or obligations granted or undertaken by Canadian Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by Canadian Borrower to Agent. Any duties or obligations undertaken by Agent and Revolving Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Agent and Revolving Lender in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall, except where Agent and Revolving Lender and/or its employees, officers, directors and authorized agents have been grossly negligent or have acted with willful

misconduct, as determined pursuant to a final non-appealable order of a court of competent jurisdiction, be deemed to have been undertaken by Canadian Borrower to Agent and Revolving Lender and to apply in all respects to Canadian Borrower.

- (h) In connection with Inventory purchased pursuant to Letter of Credit Accommodations, Canadian Borrower shall, at Agent's request (as determined or exercised in its reasonable credit judgment), instruct all suppliers, carriers, forwarders, customs brokers, warehouses or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a Lien to deliver them to Agent and/or subject to Agent's order, and if they shall come into a Canadian Borrower's possession, to deliver them, upon Agent's request, to Agent in their original form. Canadian Borrower shall also, at Agent's request (as determined or exercised in its reasonable credit judgment), designate Agent as the consignee on all bills of lading and other negotiable and non-negotiable documents.

2.3 Tranche B Loan

- (a) Subject to and upon the terms and conditions contained herein, each Tranche B Lender agrees to make its Tranche B Loan to Canadian Borrower in US Dollars on the Closing Date. The aggregate of each Tranche B Lender's Tranche B Loan is US\$5,000,000.
- (b) If a Priority Event has occurred and is continuing, all payments shall be applied in accordance with Section 5.4. In the absence of a continuing Priority Event, the following payments shall be made:
- (i) Repayment of the Tranche B Loan shall be made by Canadian Borrower to Agent, for the benefit of Tranche B Lenders, in a single payment due in respect thereof (together with all outstanding interest thereon) payable on the Maturity Date.
- (ii) Fifty (50%) percent of Excess Cash Flow for each fiscal year of SMTC Corporation ending December 31, 2008 and thereafter, calculated using the audited consolidated financial statements of SMTC Corporation delivered pursuant to Section 8.6(a)(ii), shall be applied as a permanent repayment of the Tranche B Loan; provided that, the foregoing repayment shall not be made in the event that:
- (A) Total Excess Availability would be less than US\$3,000,000 immediately after giving effect to such repayment or the average Total Excess Availability is less than US\$3,000,000 for the fifteen (15) days immediately preceding such repayment, provided that, at such time as Total Excess Availability would be equal to or greater than US\$3,000,000 immediately after giving effect to such repayment and the average Total Excess Availability is equal to or greater than US\$3,000,000 for the fifteen (15) days immediately preceding such payment, SMTC Corporation shall make such

payment and such payment shall be applied as a permanent repayment of the Tranche B Loan; provided further that if SMTC Corporation fails to make such repayment as a result of the failure to meet the foregoing Total Excess Availability Tests within thirty (30) days of it otherwise being due and payable the failure to make such payment may be deemed a “**Priority Event**” by Tranche B Agent, in its sole discretion;

- (B) a Priority Event shall have occurred and be continuing or would result from such repayment; or
 - (C) payment of such amount has been made under the US Loan Agreement.
- (iii) The proceeds of any Debt Offering or Equity Offering shall be applied as a permanent repayment of the Tranche B Loan provided a Priority Event shall not have occurred and be continuing or would result from such repayment.
- (iv) The proceeds of any sale of the Tranche B Loan Priority Collateral shall be applied as a permanent repayment of the Tranche B Loan; provided that:
- (A) prior to a Priority Event, Agent shall apply such proceeds in accordance with this paragraph (iv) if Agent has received such proceeds and (a) on or after its receipt and prior to applying such proceeds to the Revolving Loans Agent has actual knowledge that such proceeds are proceeds of any sale of the Tranche B Loan Priority Collateral or (b) at any time after Agent has applied such proceeds to the Revolving Loans upon (x) Agent obtaining actual knowledge that it has received such proceeds of any sale of Tranche B Loan Priority Collateral and applied such proceeds to the Revolving Loans and (y) Total Excess Availability is equal to or greater than US\$1,000,000; and
 - (B) after a Priority Event, Agent shall apply such proceeds in accordance with this paragraph (iv) upon Agent’s receipt of such proceeds.
- (v) The proceeds of any sale of Mexican Obligor Collateral (other than, in the absence of a continuing Priority Event, sales of Inventory of the Mexican Obligors and SMTC Mex Holdings, Inc. in the ordinary course of business) shall be applied as a permanent repayment of the Tranche B Loan.
- (vi) Canadian Borrower may make voluntary prepayments of the Tranche B Loan upon the satisfaction of each of the following conditions: (a) Total Excess Availability would not be less than US\$3,000,000 immediately after giving effect to such prepayment, (b) the average Total Excess

Availability is not less than US\$3,000,000 for the fifteen (15) days immediately preceding such repayment and (c) as of the date of any such prepayment and after giving effect thereto, no Default or Event of Default shall exist or have occurred and be continuing or would result from such prepayment.

- (vii) Any amounts repaid in respect of the Tranche B Loan may not be reborrowed and shall be applied to permanently reduce the aggregate amount of the Tranche B Loan.
- (c) Tranche B Loan Interest:
 - (i) Canadian Borrower shall pay to Agent, for the benefit of Tranche B Lenders, interest on the outstanding principal amount of the Tranche B Loan at the Tranche B Loan Interest Rate. All interest accruing with respect to the Tranche B Loan hereunder on and after the Maturity Date or during the occurrence of any Event of Default or termination hereof shall be payable on demand in accordance with Section 5.4 hereof.
 - (ii) All interest charges related to the Tranche B Loan shall (A) be calculated based upon the applicable Tranche B Loan Interest Rate, (B) be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed, (C) be paid monthly in arrears to Agent, for the benefit of Tranche B Lenders, on the first Business Day of each calendar month, or at Agent's option, charged to Canadian Borrower's loan account(s) maintained by Agent as of the first Business Day of each calendar month and (D) accrue from the Closing Date.
 - (iii) In no event shall charges constituting interest payable by Canadian Borrower to Agent, for the benefit of Tranche B Lenders, exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any such part or provision of this Agreement or any of the other Financing Agreements is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.
 - (iv) To the extent that the US Tranche B Lender buys a Junior Participation in Revolving Loans pursuant to the US Loan Agreement, without any further action, that portion of Revolving Loans shall bear interest at the rate of interest for the Tranche B Loan.
- (d) Canadian Borrower agrees to pay Agent, for the benefit of Tranche B Lenders, the fees, including any prepayment premium, and other amounts set forth in the Tranche B Loan Fee Letter in the amounts and at the time specified therein.
- (e) Agent, on behalf of Canadian Borrower, agrees to record the Tranche B Loan on the Register referred to in Section 11.4(e) hereof. The Tranche B Loan recorded on the Register (the "**Registered Tranche B Loan**") may not be evidenced by a promissory note other than a Registered Tranche B Loan Note (as defined below).

Upon the registration of such Tranche B Loan, any promissory note (other than a Registered Tranche B Loan Note) evidencing the same shall be null and void and shall be returned to Canadian Borrower. Canadian Borrower agrees, at the request of a Tranche B Lender, to execute and deliver to such Tranche B Lender a promissory note in registered form reasonably acceptable to such Tranche B Lender to evidence the Tranche B Loan (that is, containing registered note language) and registered as provided in Section 11.4(e) hereof (a “**Registered Tranche B Loan Note**”), payable to such Tranche B Lender and otherwise duly completed. Once recorded on the Register, the Obligations evidenced by such Registered Tranche B Loan Note may not be removed from the Register so long as it remains outstanding and a Registered Tranche B Loan Note may not be exchanged for a promissory note that is not a Registered Tranche B Loan Note.

- (f) Notwithstanding anything to the contrary in this Agreement or in any other Financing Agreement, but without application if there is a requirement to repay after or as a result of an Event of Default, in the event that prior to the day five (5) years and one (1) day from the Closing Date, the aggregate amount required to be repaid under this Agreement or any other Financing Agreement on a Tranche B Loan would otherwise cause more than twenty-five percent (25%) of the original principal amount of such Tranche B Loan to be prepaid (such excess, referred to as the “**Excess**”), then no repayment or prepayment shall be required to be paid to the extent of such Excess; provided, however, that if Canadian Borrower has completed a sale of Tranche B Loan Priority Collateral (the “**Triggering Sale**”) and the proceeds (the “**Sale Proceeds**”) of such Triggering Sale individually or in the aggregate with all other sales of Tranche B Loan Priority Collateral completed by Canadian Borrower on or prior to the date of the Triggering Sale in that particular calendar year exceeds US\$25,000, Canadian Borrower will be required to deliver a written offer (the “**Offer to Repay**”) to Tranche B Agent within five (5) Business Days of the Triggering Sale to repay that portion of the outstanding principal amount of the Tranche B Loan equal to such portion of the Sale Proceeds not otherwise required to be applied in repayment of the Tranche B Loan under this Agreement as a result of the Triggering Sale. Within five (5) Business Days of the delivery of the Offer to Repay, Tranche B Agent shall advise Canadian Borrower whether such Offer to Repay has been accepted.

2.4 Availability Reserves

All Revolving Loans otherwise available to Canadian Borrower pursuant to the lending formulas are subject to the Canadian Revolving Maximum Credit and other applicable limits hereunder and shall be subject to Agent’s continuing right to apply, establish and revise Availability Reserves.

2.5 Taxes

- (a) Any and all payments by Canadian Borrower and any Obligor hereunder or under any other Financing Agreement shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties, additions to tax or other

liabilities with respect thereto, excluding taxes that are imposed on overall net income of Agent, Tranche B Agent and any Canadian Lender (and franchise taxes imposed in lieu thereof) by (i) the state or jurisdiction under the laws of which Agent, Tranche B Agent and any Canadian Lender is organized or any political subdivision thereof, or (ii) a jurisdiction in which such Agent, Tranche B Agent or Canadian Lender is resident, carries on trade or business or has a permanent establishment (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, interest, penalties, additions to tax and liabilities in respect of payments hereunder or under the other Financing Agreements being hereinafter referred to as “**Taxes**”). If Canadian Borrower or any Obligor shall be required by law to deduct or pay any Taxes from or in respect of any sum payable hereunder or under any other Financing Agreements, (i) the sum payable by such Person shall be increased as may be necessary so that after such Person has made all required deductions and payments (including deductions and payments applicable to additional sums payable under this Section 2.5) such Agent, Tranche B Agent or Canadian Lender receives an amount equal to the sum it would have received had no such deductions or payments been made, (ii) such Person shall make all such required deductions and (iii) such Person shall pay the full amount required to be deducted to the relevant taxation authority or other authority in accordance with applicable law.

- (b) In addition, and without limiting the provisions of Section 2.5(a) above, Canadian Borrower and each Obligor shall timely pay any present or future stamp, documentary, excise, property, intangible, mortgage recording or similar taxes, charges or levies that arise from any payment made by such Person hereunder or under any other Financing Agreements or from the execution, delivery or registration or recordation of, performance under, or otherwise with respect to, this Agreement or the other Financing Agreements (hereinafter referred to as “**Other Taxes**”) to the relevant taxation authority or other authority in accordance with applicable law.
- (c) Canadian Borrower and each Obligor shall indemnify Agent, Tranche B Agent and each Canadian Lender for and hold it harmless against the full amount of any Taxes or Other Taxes, and for the full amount of taxes of any kind imposed or asserted by any jurisdiction on amounts payable under this Section 2.5, imposed on or paid by such Person and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes, or taxes were correctly or legally imposed or asserted by the relevant taxing authority. This indemnification shall be made within thirty (30) days from the date Agent, Tranche B Agent or a Canadian Lender makes written demand therefor. A certificate as to the amount of such liability or payment delivered by Agent, Tranche B Agent or a Canadian Lender to Canadian Borrower or any Obligor shall be conclusive absent manifest error.
- (d) Within thirty (30) days after the date of any payment of Taxes or Other Taxes, Canadian Borrower or the applicable Obligor, as the case may be, shall furnish to applicable Agent, Tranche B Agent or Canadian Lender, at its address referred to in Section 11.2, the original or a certified copy of a receipt evidencing such

payment issued by the applicable taxing authority, to the extent such a receipt is issued therefor, or other written proof of payment thereof that is reasonably satisfactory to such Agent, Tranche B Agent or Canadian Lender.

- (e) In the event that Agent, Tranche B Agent or Canadian Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by Canadian Borrower or with respect to which Canadian Borrower has paid additional amounts pursuant to Section 2.5(a), it shall pay to Canadian Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by Canadian Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of Agent, Tranche B Agent or Canadian Lender, as the case may be, and without interest (other than any interest paid by the relevant governmental authority with respect to such refund); provided that Canadian Borrower, upon request of Agent, Tranche B Agent or Canadian Lender, agrees to repay the amount paid over to Canadian Borrower (plus any penalties, interest or other charges imposed by the relevant governmental authority) to Agent, Tranche B Agent or Canadian Lender in the event Agent, Tranche B Agent or Canadian Lender is required to repay such refund to such governmental authority. Nothing herein shall interfere with the right of Agent, Tranche B Agent or Canadian Lender to arrange its tax affairs in whatever manner it thinks fit.
- (f) The provisions of this Section 2.5 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.6 Hedge Agreements

- (a) Procedure. Canadian Borrower may enter into Hedge Agreements from time to time over the telephone with representatives of Revolving Lender's trading unit (or that of its Affiliates), the terms of which shall be confirmed in writing in accordance with the procedures established by the trading unit of Revolving Lender or its Affiliates, as applicable.
- (b) Terms and Conditions. Each Hedge Agreement is governed by the terms and conditions set out in the confirmation forwarded by Revolving Lender to Canadian Borrower on entering into the Hedge Agreement and any applicable ISDA agreement. If there is a conflict between the terms and conditions set out in the confirmation or ISDA agreement and this Agreement with respect to the terms of the hedge, the confirmation or ISDA agreement shall govern unless otherwise expressly provided herein.
- (c) Maturity. Hedge Agreements may, at the discretion of Revolving Lender, have contract periods extending beyond the Maturity Date.
- (d) Uncommitted. Revolving Lender and its Affiliates may, at their sole discretion, decline to enter into any Hedge Agreement available to Canadian Borrower at any time.

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- (e) Hedging. Hedge Agreements may be entered into for hedging purposes only and not for speculative purposes.
- (f) Limitations.
- (i) Hedge Agreements may not be entered into at any time when the aggregate Mark to Market Exposure of all existing Hedge Agreements of Canadian Borrower, in the aggregate, exceeds US\$1,000,000. If, at any time, the Mark to Market Exposure of all Hedge Agreements of Canadian Borrower, in the aggregate, exceeds US\$1,000,000, Canadian Borrower shall take such measures as may be necessary to reduce the Mark to Market Exposure by the amount of such excess within five (5) Business Days.
 - (ii) The notional amount of any and all Hedge Agreements of Canadian Borrower shall not exceed US\$10,000,000 in the aggregate.
- (g) Notice. Canadian Borrower shall provide Agent and Tranche B Agent with written notice forthwith upon entering into a Hedge Agreement. Such notice shall specify Revolving Lender (or Affiliate of Revolving Lender) and the aggregate Mark to Market Exposure immediately prior to entering into such Hedge Agreement. Canadian Borrower shall advise Agent and Tranche B Agent in writing of the aggregate Mark to Market Exposure of its outstanding Hedge Agreements as at the end of each month by the next following Business Day, and such other times as Agent or Tranche B Agent shall request. For greater certainty, Revolving Lender (or each Affiliate of Revolving Lender) that makes a Hedge Agreement available to Canadian Borrower agrees to provide within five (5) Business Days of a written request therefor by Canadian Borrower, a determination of the Mark to Market Exposure of each Hedge Agreement that Revolving Lender (or such Affiliate of Revolving Lender) has with Canadian Borrower.

Section 3 Interest and Fees

3.1 Interest

- (a) Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender, interest on the outstanding principal amount of the non-contingent Obligations (other than the Tranche B Loan) at the Interest Rate.
- (b) Interest shall be payable by Canadian Borrower to Agent, for the benefit of Revolving Lender, monthly in arrears not later than the first Business Day of each calendar month and shall be calculated on the basis of a three hundred and sixty (360) day year and actual days elapsed in the case of Revolving Loans. The Interest Rate shall increase or decrease by an amount equal to each increase or decrease in the Canadian Prime Rate, US Prime Rate or CDOR Rate, as applicable, effective on the first day of the month after any change in such rate is announced. The increase or decrease shall be based on the Canadian Prime Rate,

US Prime Rate or CDOR Rate, as applicable, in effect on the last day of the month in which any such change occurs. All interest accruing hereunder on and after an Event of Default or termination or non-renewal hereof shall be payable on demand. In no event shall charges constituting interest payable by Canadian Borrower to Canadian Lenders exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

- (c) For purposes of disclosure under the *Interest Act* (Canada), where interest is calculated pursuant hereto at a rate based upon a 360 day year (the “**First Rate**”), it is hereby agreed that the rate or percentage of interest on a yearly basis is equivalent to such First Rate multiplied by the actual number of days in the year divided by 360.
- (d) Notwithstanding the provisions of this Section 3 or any other provision of this Agreement, in no event shall the aggregate “interest” (as that term is defined in Section 347 of the *Criminal Code* (Canada)) exceed the effective annual rate of interest on the “credit advanced” (as defined therein) lawfully permitted under Section 347 of the *Criminal Code* (Canada). The effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the term of the Loans, and in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by Agent or Tranche B Agent will be conclusive for the purposes of such determination.
- (e) A certificate of an authorized signing officer of Agent or Tranche B Agent, as the case may be, as to each amount and/or each rate of interest payable hereunder from time to time shall be conclusive evidence of such amount and of such rate, absent manifest error.
- (f) For greater certainty, whenever any amount is payable under this Agreement or any other Financing Agreement by Canadian Borrower as interest or as a fee which requires the calculation of an amount using a percentage per annum, each party to this Agreement acknowledges and agrees that such amount shall be calculated as of the date payment is due without application of the “deemed reinvestment principle” or the “effective yield method”. As an example, when interest is calculated and payable monthly, the rate of interest payable per month is 1/12 of the stated rate of interest per annum.
- (g) Upon the occurrence of a Default or an Event of Default that is continuing, or if Canadian Borrower repays or prepays a Libor Rate Loan on a day other than the last day of the applicable Interest Period, Canadian Borrower shall indemnify Tranche B Agent and/or Tranche B Lenders for any loss or expense suffered or incurred by Tranche B Agent and/or Tranche B Lenders including any loss of profit or expenses Tranche B Agent and/or Tranche B Lenders incur by reason of the liquidation or redeployment of deposits or other funds acquired by it to effect or maintain any and all Libor Rate Loans, or any interest or other charges payable to lenders of funds borrowed by Tranche B Agent and/or Tranche B Lenders in order to maintain such Libor Rate Loans, together with any other charges, costs or expenses incurred by Tranche B Agent and/or Tranche B Lenders relative thereto.

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- (h) Canadian Borrower may from time to time request Libor Rate Loans or that any existing Libor Rate Loans continue for an additional Interest Period. Such request from Canadian Borrower shall specify the amount of the Libor Rate Loans or the amount of the Libor Rate Loans to be continued (subject to the limits set forth below). Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Tranche B Agent of such a request from Canadian Borrower, such Libor Rate Loans shall be made or such Libor Rate Loans shall continue, as applicable; provided, that, (i) no party hereto shall have sent any notice of termination of this Agreement; (ii) Canadian Borrower shall have complied with such customary procedures as are generally established by Tranche B Agent for all customers and specified by Tranche B Agent to Canadian Borrower from time to time for requests by Canadian Borrower for Libor Rate Loans; (iii) no more than one (1) Interest Period (for all outstanding Libor Rate Loans) may be in effect at any one time; (iv) the aggregate amount of the Libor Rate Loans must be in an amount not less than US\$1,000,000 or an integral multiple of US\$1,000,000 in excess thereof; and (v) Tranche B Agent shall have determined that the Interest Period or Adjusted Libor Rate is available to Tranche B Agent and can be readily determined as of the date of the request for such Libor Rate Loan by Canadian Borrower. Any request by Canadian Borrower for Libor Rate Loans or to continue Libor Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Tranche B Lenders and/or Tranche B Agent shall not be required to purchase US Dollar deposits in the London interbank market to fund any Libor Rate Loans, but the provisions hereof shall be deemed to apply as if Tranche B Lenders and/or Tranche B Agent had purchased such deposits to fund the Libor Rate Loans. Tranche B Agent shall advise Agent of the Tranche B Loan Interest Rate payable by Canadian Borrower hereunder.
- (i) To the extent that the US Revolving Lender buys a Junior Participation in the Tranche B Loan pursuant to the US Loan Agreement, without any further action, that portion of Tranche B Loans shall bear interest at the rate of interest for the Revolving Loan.

3.2 Closing Fee

Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender, as a closing fee the amount of US\$100,000, which shall be fully earned as of and payable on the Closing Date.

3.3 Servicing Fee

Canadian Borrower shall pay to Agent, for the benefit of Agent, monthly a servicing fee in an amount equal to US\$1,500 in respect of Agent's services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of and payable in advance on the Closing Date and on the first day of each month hereafter.

3.4 Unused Line Fee

Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender monthly an unused line fee in US Dollars at a rate equal to one quarter of one (0.25%) percent per annum calculated upon the amount by which US\$30,000,000 exceeds the US Dollar Amount of the aggregate of the average daily principal balance of the outstanding Revolving Loans, Letter of Credit Accommodations, US Revolving Loans and US Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

3.5 Commitment Fee

Canadian Borrower shall pay to Agent, for the benefit of Revolving Lender, for the fourth (4th) and fifth (5th) year of the term of this Agreement, a commitment fee in an amount equal to US\$25,000, which US\$25,000 fee shall be fully earned as of and payable on the first day of the third (3rd) anniversary hereof and the fourth (4th) anniversary hereof.

3.6 Increased Costs and Changes in Law

- (a) If, after the Closing Date, either: (i) any change in, or in the interpretation of, any law or regulation is introduced, including with respect to reserve requirements, applicable to a Canadian Lender or any banking or financial institution from whom Canadian Lender borrows funds or obtains credit (a "**Funding Bank**"); or (ii) a Funding Bank or Canadian Lender complies with any future guideline or request from any central bank or other Governmental Authority; or (iii) a Funding Bank or Canadian Lender determines that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof has or would have the effect described below, or a Funding Bank or Canadian Lender complies with any request or directive regarding capital adequacy (whether or not having the force of law where customarily complied with by responsible financial institutions) of any such authority, central bank or comparable agency, and in the case of any event set forth in this clause (iii), such adoption, change or compliance has, or would have, the direct or indirect effect of reducing the rate of return on a Canadian Lender's capital as a consequence of its obligations hereunder to a level below that which such Canadian Lender could have achieved but for such adoption, change or compliance (taking into consideration the Funding Bank's or such Canadian Lender's policies with respect to capital adequacy) by an amount deemed by such Canadian Lender to be material, and the result of any of the foregoing events described in clauses (i), (ii) or (iii) is, or results in, an increase in the cost to such Canadian Lender of funding or maintaining the Loans and/or Letter of Credit Accommodations, then Canadian Borrower shall from time to time upon demand by such Canadian Lender pay to

such Canadian Lender additional amounts sufficient to indemnify such Canadian Lender against such increased cost on an after-tax basis (after taking into account applicable deductions and credits in respect of the amount indemnified). A certificate as to the amount of such increased cost shall be submitted to Canadian Borrower by Agent and shall be conclusive, absent manifest error.

- (b) If, prior to the first day of any Interest Period: (i) Tranche B Agent shall have determined (which determination shall be conclusive and binding upon Canadian Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Adjusted Libor Rate for such Interest Period; (ii) Tranche B Agent has determined that the Adjusted Libor Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to Tranche B Agent and/or Tranche B Lenders of making or maintaining Libor Rate Loans during such Interest Period; or (iii) US Dollar deposits in the principal amounts of the Libor Rate Loans to which such Interest Period is to be applicable are not generally available in the London interbank market, Tranche B Agent shall give notice thereof to Canadian Borrower as soon as practicable thereafter (which notice shall be withdrawn whenever such circumstances no longer exist). If such notice is given: (A) any Libor Rate Loans requested to be made on the first day of such Interest Period shall be made as Reference Rate Loans; (B) any Reference Rate Loans that were to have been converted on the first day of such Interest Period to or continue as Libor Rate Loans shall be converted to or continued as Reference Rate Loans; and (C) each outstanding Libor Rate Loan shall be converted, on the last day of the then-current Interest Period thereof, to Reference Rate Loans. Until such notice has been withdrawn by Tranche B Agent, no further Libor Rate Loans shall be made or continued as such, nor shall a Canadian Borrower have the right to convert Reference Rate Loans to Libor Rate Loans. Upon such notice being withdrawn by Tranche B Agent, Canadian Borrower may convert Reference Rate Loans to Libor Rate Loans. Any conversion under this Section 3.6(b) shall not constitute a repayment, disposition or novation of the original Loan and the Loan following the conversion will continue to be the same debt obligation as the original Loan prior to the conversion
- (c) Notwithstanding any other provision herein, if the adoption of, or any change in, any law, treaty, rule or regulation or final, non-appealable determination of an arbitrator or a court or other Governmental Authority or in the interpretation or application thereof occurring after the Closing Date shall make it unlawful for Tranche B Agent or Tranche B Lenders to make or maintain Libor Rate Loans as contemplated by this Agreement: (i) Tranche B Agent shall promptly give written notice of such circumstances to Canadian Borrower (which notice shall be withdrawn whenever such circumstances no longer exist); (ii) the commitment of Tranche B Agent and/or Tranche B Lenders hereunder to make Libor Rate Loans, continue Libor Rate Loans and convert Reference Rate Loans to Libor Rate Loans shall forthwith be cancelled and, until such time as it shall no longer be unlawful for Tranche B Agent and/or Tranche B Lenders to make or maintain Libor Rate Loans, Tranche B Agent and/or Tranche B Lenders shall then only have a commitment to make Reference Rate Loans when a Libor Rate Loan is requested;

and (iii) the Tranche B Loan then outstanding as Libor Rate Loans, if any, shall be converted automatically to Reference Rate Loans on the respective last days of the then current Interest Periods or within such earlier period as required by law. If any such conversion of a Libor Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Canadian Borrower shall pay to Agent, for the benefit of Tranche B Lenders, such amounts, if any, as may be required pursuant to Section 3.6(d) below. Any conversion under this Section 3.6(c) shall not constitute a repayment, disposition or novation of the original Loan and the Loan following the conversion will continue to be the same debt obligation as the original Loan prior to the conversion

- (d) Canadian Borrower shall indemnify Tranche B Agent and Tranche B Lenders and shall hold Tranche B Agent and Tranche B Lenders harmless from any loss or expense which Tranche B Agent or Tranche B Lenders may sustain or incur as a consequence of: (i) default by Canadian Borrower in making a borrowing of, conversion into or extension of Libor Rate Loans after Canadian Borrower has given a notice requesting the same in accordance with the provisions of this Agreement; or (ii) the making of a prepayment of any Libor Rate Loans on a day which is not the last day of an Interest Period with respect thereto; or (iii) any conversion of a Libor Rate Loan into a Reference Rate Loan pursuant to the terms hereof on a day which is not the last day of the then current Interest Period with respect thereto. With respect to Libor Rate Loans such indemnification may include an amount equal to the greater of: (i) the excess, if any, of (1) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or extended, for the period from the date of such prepayment or of such failure to borrow, convert or extend to the last day of the applicable Interest Period (or, in the case of a failure to borrow, convert or extend, the Interest Period that would have commenced on the date of such failure), in each case at the applicable rate of interest for such Libor Rate Loans provided for herein over (2) the amount of interest (as determined by Tranche B Agent) which would have accrued to Tranche B Lenders on such amount by placing such amount on deposit for a comparable period with leading banks in the London interbank market; and (ii) an amount equal to the interest that would have been payable if the Libor Rate Loans had been a Reference Rate Loan. This covenant shall survive the termination or non-renewal of this Agreement and the payment of the Obligations.

Section 4 Conditions Precedent

4.1 Conditions Precedent to Amendment and Restatement

This Agreement shall become effective as of the Business Day when each of the following conditions precedent shall have been satisfied in a manner satisfactory to Agent and Tranche B Agent:

- (a) Agent and Tranche B Agent shall have received evidence (including any inter-creditor arrangements, subordinations or releases of any other Liens in the Collateral required by Canadian Lenders, PPSA termination statements for all

PPSA financing statements previously filed by any secured lender, as secured party, against Canadian Borrower or Obligor, as debtor, and satisfactions and discharges of any mortgages, deeds of trust or deeds to secure debt by Canadian Borrower or Obligor in favor of a secured lender in form acceptable for recording with the appropriate governmental authority), in form and substance satisfactory to Canadian Lenders, that Agent has valid perfected and first priority Liens in and upon the Collateral and any other property which is intended to be security for the Obligations or the liability of any Obligor in respect thereof, subject only to the Liens permitted herein or in the other Financing Agreements and US Financing Agreements;

- (b) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Canadian Lenders, and Agent shall have received all information and copies of all documents, including records of requisite corporate action and proceedings which Canadian Lenders may have requested in connection therewith, such documents where requested by Agent or its counsel to be certified by appropriate corporate officers or governmental authorities (and including a copy of the certificate of incorporation of Canadian Borrower and Obligor certified by the Ministry of Business and Consumer Services (or equivalent governmental authority) which shall set forth the same complete corporate name of Canadian Borrower or Obligor and such document as shall set forth the organizational identification number of Canadian Borrower or Obligor, if one is issued in its jurisdiction of incorporation);
- (c) no material adverse change shall have occurred in the assets, business or prospects of Canadian Borrower or any Obligors since December 31, 2006 and no change or event shall have occurred which would impair the ability of Canadian Borrower or any Obligor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Canadian Lenders, Tranche B Agent and Agent to enforce the Obligations or realize upon the Collateral;
- (d) Canadian Lenders shall have completed a field review of the Records and such other information with respect to the Collateral as Canadian Lenders may require to determine the amount of Revolving Loans available to Canadian Borrower, the results of which shall be satisfactory to Agent, not more than three (3) Business Days prior to the Closing Date;
- (e) Agent shall have received, in form and substance satisfactory to Canadian Lenders, all consents, waivers, acknowledgments and other agreements from third persons which Canadian Lenders may deem necessary or desirable in order to permit, protect and perfect its Liens in and upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including Billing Authorization Letters re: Accounts, No-Offset Agreements re: Accounts, Inventory Purchase Agreements, acknowledgements by lessors, mortgagees and warehousemen of Agent's Liens in the Collateral, waivers by such persons of any Liens or other claims by such persons to the Collateral and

agreements permitting Canadian Lenders access to, and the right to remain on, the premises to exercise its rights and remedies and otherwise deal with the Collateral;

- (f) Agent and Tranche B Agent shall have received evidence of insurance and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Canadian Lenders, and certificates of insurance policies and/or endorsements naming Agent as first loss payee and an additional insured;
- (g) Agent and Tranche B Agent shall have received, in form and substance satisfactory to Canadian Lenders, acting reasonably, such opinion letters of counsel to Canadian Borrower and the Obligors with respect to the Financing Agreements and such other matters as Agent may request, acting reasonably;
- (h) the other Financing Agreements and the US Financing Agreements, and all instruments and documents hereunder and thereunder including those listed on the closing agenda with respect to this Agreement and the US Loan Agreement shall have been duly executed and originals or copies, as applicable, delivered to Agent and Tranche B Agent and be in form and substance satisfactory to Canadian Lenders;
- (i) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to Canadian Lenders, that all security and guarantees granted or issued by SMTC Corporation and its Subsidiaries in favour of existing lenders thereto and all Liens with respect thereto (other than such security, guarantees and Liens that Agent shall consent to in writing prior to the Closing Date) have been released or discharged or an undertaking, in form and substance satisfactory to Canadian Lenders, shall have been executed and delivered by such existing lenders in favour of Agent agreeing to, among other things, release and discharge such security, guarantees and Liens within a reasonable time following the Closing Date;
- (j) the Total Excess Availability, as determined by Agent, as of the Closing Date, shall not be less than US\$3,000,000 after giving effect to (i) the initial Loans, the Letter of Credit Accommodations, if any, and US Advances made or to be made in connection with the initial transactions hereunder and under the US Financing Agreements, (ii) payment of all fees and expenses in connection with the transactions under the Financing Agreements and US Financing Agreements and (iii) provided that accounts payable, taxes and other obligations of Canadian Borrower and Obligors are paid current in accordance with historical business practices of Canadian Borrower and Obligors;
- (k) each of the conditions precedent in the US Loan Agreement shall have been satisfied;
- (l) Agent and Tranche B Agent shall have received, in form and substance satisfactory to Canadian Lenders, Deposit Account Control Agreements regarding Blocked Accounts by and among Agent, Canadian Borrower and each bank where Canadian Borrower has a deposit account, in each case, duly authorized, executed and delivered by such bank and Canadian Borrower;

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- (m) Agent and Tranche B Agent shall have received and reviewed lien, judgment and other applicable search results for the jurisdiction of incorporation of Canadian Borrower, the jurisdiction of the chief executive office of Canadian Borrower and all jurisdictions in which assets of Canadian Borrower and Obligors are located, which search results shall be in form and substance satisfactory to Canadian Lenders;
 - (n) Agent shall have received originals of the share certificates representing all of the issued and outstanding shares of Canadian Borrower and Obligor, as applicable, in each case together with stock powers duly executed in blank with respect thereto;
 - (o) Tranche B Agent shall have completed its due diligence (including the review of regulatory, environmental, intellectual property, litigation, accounting, tax, licensing, certification, permit and labour matters, cash management systems and material contracts of Obligors) with results satisfactory to Tranche B Agent and its counsel, in their sole discretion;
 - (p) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to Canadian Lenders, that Canadian Borrower and Obligor is in good standing in its respective jurisdiction of organization and is duly qualified to do business in each other jurisdiction where its ownership or lease or property or the conduct of its business requires such qualification;
 - (q) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to Canadian Lenders, that all required governmental, shareholder and third party approvals, consents, licenses, franchises and permits in connection with this Agreement and the transactions contemplated hereby and the operation by Canadian Borrower and Obligors of their respective businesses have been obtained and remain in full force and effect;
 - (r) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to Canadian Lenders, that there exists no claim, action, suit, investigation, litigation or proceeding, pending or threatened, in any court or before any arbitrator or governmental instrumentality which relates to this Agreement, the other Financing Agreements or the US Financing Agreements or which, in the opinion of Canadian Lenders, has any reasonable likelihood of having a material adverse effect on (i) the condition (financial or otherwise), operations, performance, properties, assets, liabilities, business or prospects of Canadian Borrower or Obligor, (ii) the ability of Canadian Borrower or Obligor to perform its obligations under the Financing Agreements or (iii) the ability of Agent or Canadian Lenders to enforce the Financing Agreements;
 - (s) Agent and Tranche B Agent shall have received evidence, in form and substance satisfactory to Canadian Lenders, that the existing subordinated loan facilities have been terminated and all Liens thereunder have or will be released and SMTC

Corporation and its Subsidiaries has no indebtedness other than indebtedness permitted pursuant to the Financing Agreements, US Financing Agreements or consented to in writing by Canadian Lenders;

- (t) Agent and Tranche B Agent shall have received evidence that Canadian Borrower and Obligors have paid to Agent and Canadian Lenders all fees and expenses then owing to such persons including all audit, legal, search, title, documentation and filing fees; and
- (u) Agent and Tranche B Agent shall have received projected financial statements of Canadian Borrower for a period of not less than three (3) years, with such projections for years 1 and 2 prepared on a monthly basis and thereafter prepared on an annual basis and a sales backlog report as of a date not more than thirty (30) days prior to the Closing Date, all in form and substance satisfactory to Canadian Lenders.

4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations

Each of the following is an additional condition precedent to making Loans and/or providing Letter of Credit Accommodations to Canadian Borrower, including the initial Loans and Letter of Credit Accommodations and any future Loans and Letter of Credit Accommodations:

- (a) all representations and warranties contained herein and in the other Financing Agreements and US Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto;
- (b) no Event of Default (as defined hereunder and as defined under the US Loan Agreement) and no Default (as defined hereunder and as defined under the US Loan Agreement), shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and
- (c) no law, regulation, order, judgment or decree of any governmental authority shall exist, and no action, suit, investigation, litigation or proceeding shall be pending or threatened in any court or before any arbitrator or governmental authority, which purports to enjoin, prohibit, restrain or otherwise affect (A) the making of the Loans or providing the Letter of Credit Accommodations, or (B) the consummation of the transactions contemplated pursuant to the terms hereof or the other Financing Agreements or US Financing Agreements.

Section 5 Collection and Administration

5.1 Canadian Borrower's Loan Account

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

5.2 Statements

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

5.3 Collection of Accounts

- (a) Canadian Borrower shall establish and maintain, at its expense, blocked accounts or lockboxes and related blocked accounts (in either case, "**Blocked Accounts**") as Required Lenders may specify, and Agent may establish and maintain bank accounts of Agent ("**Payment Accounts**") in each case with such banks as are acceptable to Agent, into which Blocked Accounts Canadian Borrower shall promptly deposit, and direct their accounts debtors that remit payments by electronic funds transfers to directly remit, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form in which such payments are made or received, whether by cash, cheque or other manner. The parties hereto agree that:
 - (i) Canadian Borrower has access to all funds in its bank accounts including the Blocked Accounts until an Event of Default exists or has occurred and is continuing; and
 - (ii) as of the date of this Agreement, Canadian Borrower is freely choosing to deposit, and direct its account debtors that remit payments by electronic funds transfer to directly remit, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral into the Blocked Accounts.

The banks at which the Blocked Accounts are established, Canadian Borrower and Agent shall enter into “springing” deposit account control agreements (each, a “**Deposit Account Control Agreement**”), in form and substance satisfactory to Required Lenders, acting reasonably, providing that:

- (i) the depository bank has no Lien upon, or right to set-off against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein; and
- (ii) at any time an Event of Default exists or has occurred and is continuing, Agent may (and at the direction of Tranche B Agent shall) provide notice to the depository bank (such notice being the “**Full Control Notice**”) to wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into the Blocked Accounts to the Payment Accounts.

Canadian Borrower agrees that, at any time an Event of Default exists or has occurred and is continuing and a Full Control Notice has been delivered by Agent to the depository bank, all payments made to such Blocked Accounts or Payment Accounts or other funds received and collected by Agent, whether on the Accounts or as proceeds of Inventory or other Collateral or otherwise, shall be the property of Agent, for the benefit of Canadian Lenders, and shall be applied by Agent to the Obligations in accordance with Section 5.4.

- (b) For purposes of calculating the amount of the Revolving Loans available to Canadian Borrower, such payments referred to in Section 5.3(a) above will be applied (conditional upon final collection) to the Obligations in accordance with Section 5.4 on the Business Day of receipt by Agent of immediately available funds in the Payment Account provided such payments and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time and within sufficient time to credit applicable Canadian Borrower’s loan account on such day, and if not, then on the next Business Day. For the purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final collection) to the Obligations on the date of receipt of immediately available funds by Agent in the Payment Accounts provided such payments or other funds and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time and within sufficient time to credit applicable Canadian Borrower’s loan account on such day, and if not, then on the next Business Day. If Agent receives funds in a Payment Account at any time at which no Obligations are payable pursuant to Section 5.4 or in excess of such outstanding Obligations payable pursuant to Section 5.4, Agent shall transfer such funds to Canadian Borrower at such account as Canadian Borrower may direct, provided that Canadian Borrower shall, at Agent’s request, deposit such funds to an account maintained at the bank at which the Payment Accounts are maintained and, prior to such transfer, shall execute and deliver to Agent a cash collateral agreement in form and substance satisfactory to Agent providing to Agent a first priority Lien over such account.

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- (c) At any time an Event of Default exists or has occurred and is continuing, Canadian Borrower and all of their affiliates, Subsidiaries, shareholders, directors, employees or agents shall, acting as trustee for Agent, receive, as the property of Agent, any monies, checks, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts or the Payment Accounts, or remit the same or cause the same to be remitted, in kind, to Agent. In no event, after an Event of Default exists or has occurred and is continuing, shall the same be commingled with Canadian Borrower's own funds. Canadian Borrower agrees to reimburse Agent on demand for any amounts owed or paid to any bank at which a Blocked Account or Payment Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts or the Payment Accounts arising out of Agents' payments to or indemnification of such bank or person. The obligation of each US Borrower to reimburse Agent for such amounts pursuant to this Section 5.3 shall survive the termination or non-renewal of this Agreement.

5.4 Payments

- (a) *Non-Priority Event.* Agent shall apply payments received or collected from Canadian Borrower or for the account of Canadian Borrower (including the monetary proceeds of collections or of realization upon any Collateral other than with respect to the Tranche B Loan Priority Collateral but including, in the absence of a continuing Priority Event, collections with respect to proceeds of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business) as follows:
- (i) first, to the payment in full of any fees, indemnities and expense reimbursements due to Canadian Lenders, Agent and Tranche B Agent;
 - (ii) second, to the payment in full of interest and letter of credit fees due in respect of any Loans, Special Agent Advances, Special Tranche B Agent Advances and Letter of Credit Accommodations;
 - (iii) third, to the payment or prepayment in full of principal in respect of Special Agent Advances and Special Tranche B Agent Advances;
 - (iv) fourth, to the payment or prepayment in full of principal due in respect of the Revolving Loans, Letter of Credit Accommodations and the amount of the Mark to Market Exposure of any Hedge Agreement of Canadian Borrower not exceeding US\$3,000,000 in the aggregate to the extent that an Availability Reserve has been taken with respect to such Mark to Market Exposure;
 - (v) fifth, to the payment in full of principal due in respect of the Tranche B Loan; and

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- (vi) sixth, to pay or prepay any other Obligations (including other Hedging Liabilities) then due including holding as cash collateral in the amount equal to one hundred ten (110%) percent of the amount of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;

provided that, in each instance set forth above in Section 5.4(a) so long as no Priority Event has occurred and is continuing, this Section 5.4(a) shall not be deemed to apply to any payment by Canadian Borrower specified by Canadian Borrower to be for the payment of specific Obligations then due and payable (or prepayable) under and in accordance with the provisions of this Agreement.

(b) *Priority Event.*

- (i) **Revolving Loan Priority Collateral:** Notwithstanding anything to the contrary contained in Section 5.4(a) above, at any time on and after a Priority Event and for so long as the same is continuing, Agent shall apply payments received or collected from Canadian Borrower or for the account of Canadian Borrower rising from monetary proceeds of collections or of realization upon the Revolving Loan Priority Collateral including any Account of SMTC Mex Holdings, Inc. arising from the sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of business before the occurrence of a Priority Event as follows:

- (A) first, in the event of Agent (or its assignee, designee, affiliates or agents) commencing and/or pursuing an Enforcement Action, to the payment in full of all costs and expenses of such Persons with respect to such Enforcement Action, the collection of the Loans and disposition of and realization upon the Collateral including the Mexican Obligor Collateral;
- (B) second, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Agent and Revolving Lender;
- (C) third, to the *pro rata* payment in full of interest and letter of credit fees due in respect of any Revolving Loans, Letter of Credit Accommodations, Special Agent Advances and Special Tranche B Agent Advances;
- (D) fourth, to the *pro rata* payment in full of principal due in respect of Special Agent Advances and Special Tranche B Agent Advances;
- (E) fifth, to the *pro rata* payment in full of principal due in respect of any Revolving Loans, Letter of Credit Accommodations and the amount of the Mark to Market Exposure of any Hedge Agreement of Canadian Borrower not exceeding US\$3,000,000 in the aggregate to the extent that an Availability Reserve has been taken with respect to such Mark to Market Exposure;

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- (F) sixth, to pay or prepay *pro rata* any other Obligations (other than with respect to the Tranche B Loan) whether or not then due, in such order and manner as Agent determines including holding cash collateral in the amount equal to one hundred ten (110%) percent of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;
 - (G) seventh, to the payment in full of any fees, indemnities and expense reimbursements due in respect of the Tranche B Loan;
 - (H) eighth, to the payment in full of interest due in respect of the Tranche B Loan;
 - (I) ninth, to the payment in full of principal due in respect of the Tranche B Loan; and
 - (J) tenth, to pay or prepay *pro rata* any other Obligations (other than with respect to Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities) whether or not then due in such order and manner as Tranche B Agent determines;

provided, that in the event that, after the occurrence and during the continuance of a Priority Event, any payment is made to Tranche B Lenders in respect of the Tranche B Loan pursuant to clauses (G), (H), (I) and (J) above at a time when any of the US Obligations owing to US Revolving Lender under the US Financing Agreements remain outstanding, then Tranche B Lenders receiving such payment shall purchase from US Revolving Lender having US Obligations outstanding under the US Financing Agreements, a junior participation interest in US Revolving Lender's US Obligations under the US Financing Agreements (the "**Junior Participation**") in the aggregate amount of the payment received by Tranche B Lenders in respect of the Tranche B Loan and US Revolving Lender hereby agrees to sell to Tranche B Lenders its pro rata share of the Junior Participation. The terms and provisions of the Junior Participation shall be set forth in a junior participation agreement, in form and substance reasonably acceptable to Agent and Tranche B Agent, which agreement shall provide, among other things, that the payment priority of amounts payable to Tranche B Lenders in respect of the Junior Participation shall be the same as the payment priority of amounts payable to US Tranche B Lenders in respect of the US Tranche B Loan.

- (ii) **Tranche B Loan Priority Collateral.** Notwithstanding anything to the contrary contained in Section 5.4(a) and 5.4(b)(i) above, whether or not a Priority Event has occurred and is continuing, Agent shall apply payments received or collected from Canadian Borrower or for the account of Canadian Borrower arising from monetary proceeds of collections or of realization upon the Tranche B Loan Priority Collateral as follows (provided that, Accounts of SMTC Mex Holdings, Inc. arising from the

sale of inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of business before the occurrence of a Priority Event shall not be Tranche B Loan Priority Collateral and prior to the occurrence of a Priority Event, collections or realizations relating to the Tranche B Loan Priority Collateral shall not include proceeds of Inventory of SMTC Mex Holdings, Inc. located in Mexico sold in the ordinary course of its business):

- (A) first, in the event of Agent (or its assignee, designee, affiliates or agents) commencing and/or pursuing an Enforcement Action with respect to the Tranche B Loan Priority Collateral, to the payment in full of all costs and expenses of such Persons with respect to such Enforcement Action and disposition of and realization upon the Tranche B Loan Priority Collateral;
- (B) second, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Tranche B Agent and Tranche B Lenders;
- (C) third, to the *pro rata* payment in full of interest due in respect of the Tranche B Loan, Special Agent Advances and Special Tranche B Agent Advances;
- (D) fourth, to the *pro rata* payment in full of principal due in respect of Special Agent Advances and Special Tranche B Agent Advances;
- (E) fifth, to the payment in full of principal due in respect of the Tranche B Loan;
- (F) sixth, to pay or prepay *pro rata* payment any other Obligations (other than with respect to Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities) whether or not then due in such order and manner as Tranche B Agent determines;
- (G) seventh, to the *pro rata* payment in full of any fees, indemnities and expense reimbursements due to Agent and Revolving Lender;
- (H) eighth, to the *pro rata* payment in full of interest and letter of credit fees due in respect of any Revolving Loans and Letter of Credit Accommodations;
- (I) ninth, to the *pro rata* payment in full of principal due in respect of any Revolving Loans, Letter of Credit Accommodations and Hedging Liabilities; and
- (J) tenth, to pay or prepay *pro rata* any other Obligations (other than with respect to the Tranche B Loan) whether or not then due, in such order and manner as Agent determines including holding as cash collateral in the amount equal to one hundred ten (110%)

percent of the amount of the amount of the Letter of Credit Accommodations plus the amount of fees and expenses payable in connection therewith through the end of the latest expiration date thereof;

provided, that in the event that, after the occurrence and during the continuance of a Priority Event, any payment is made to Revolving Lender in respect of the Revolving Loan pursuant to clauses (G), (H), (I) or (J) above at a time when any of the US Obligations owing to US Tranche B Lender under the US Financing Agreements remain outstanding, then Revolving Lender receiving such payment shall purchase from US Tranche B Lenders having US Obligations outstanding under the US Financing Agreement, a junior participation interest in US Tranche B Lenders' Obligations under the US Financing Agreements (the "**Junior Participation**") in the aggregate amount of the payment received by Revolving Lender in respect of the Revolving Loan and each US Tranche B Lender hereby agrees to sell to Revolving Lender its pro rata share of the Junior Participation. The terms and provisions of the Junior Participation shall be set forth in a junior participation agreement, in form and substance reasonably acceptable to the Agent and Tranche B Agent, which agreement shall provide, among other things, that the payment priority of amounts payable to Revolving Lender in respect of the Junior Participation shall be the same as the payment priority of amounts payable to US Revolving Lender in respect of the US Revolving Loan.

- (c) All Obligations shall be payable to the Payment Account as provided in Section 5.3 or such other place as Agent may designate from time to time. All payments with respect to the Obligations must be made in US Dollars. At Agent's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged directly to the loan account(s) of Canadian Borrower. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Agent, Tranche B Agent or any Canadian Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by such Agent, Tranche B Agent or Canadian Lender. Canadian Borrower shall be liable to pay to such Agent, Tranche B Agent or Canadian Lender, and does hereby indemnify and hold such Agent, Tranche B Agent or Lender harmless for, the amount of any payments or proceeds surrendered or returned. Agent shall, upon receipt of any payment for the account of Tranche B Agent and/or Tranche B Lenders under this Agreement (including payments with respect to interest, principal and mandatory and voluntary prepayments of the Tranche B Loan pursuant to Sections 2.3 and 5.4) promptly, and in any event within three (3) Business Days of Agent's receipt of such payment, transfer such payment to Tranche B Agent for the benefit of Tranche B Lenders. This Section 5.4 shall remain effective notwithstanding any contrary action which may be taken by such Agent, Tranche B Agent or Canadian Lenders in reliance upon such payment or proceeds. This Section 5.4 shall survive the payment of the Obligations and the termination of this Agreement.

5.5 Authorization to Make Loans and Letter of Credit Accommodations

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

5.6 Use of Proceeds

- (a) Canadian Borrower shall use the initial proceeds of the Revolving Loans provided by Revolving Lender to Canadian Borrower hereunder only for: (a) payments to each of the persons listed in the disbursement direction letter furnished by Canadian Borrower to Revolving Lender and approved by Revolving Lender on or about the Closing Date and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements and US Financing Agreements. All other Revolving Loans made or Letter of Credit Accommodations provided by Revolving Lender to Canadian Borrower pursuant to the provisions hereof shall be used by Canadian Borrower only for general operating, working capital and other proper corporate purposes of Canadian Borrower not otherwise prohibited by the terms hereof and approved by Revolving Lender.
- (b) Canadian Borrower shall use the initial proceeds of the Tranche B Loan provided by Tranche B Lenders to Canadian Borrower hereunder only for: (a) refinancing existing indebtedness owed by Canadian Borrower as set out in the disbursement direction letter furnished by Canadian Borrower to Tranche B Agent and approved by Tranche B Agent on or about the Closing Date, (b) pay fees and expenses relating to the Tranche B Loan and the transactions contemplated thereby, and (c) provide for the ongoing working capital of Canadian Borrower.
- (c) None of the proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended.

5.7 Obligations Several; Independent Nature of Canadian Lenders' Rights

The obligation of each Canadian Lender hereunder is several, and no Canadian Lender shall be responsible for the obligation or commitment of any other Canadian Lender hereunder. Nothing contained in this Agreement or any of the other Financing Agreements and no action taken by Canadian Lenders pursuant hereto or thereto shall be deemed to constitute Canadian Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Canadian Lender shall be a separate and independent debt, and subject to Section 12.3 hereof, each Canadian Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Canadian Lender to be joined as an additional party in any proceeding for such purpose.

Section 6 Collateral Reporting and Covenants

6.1 Collateral Reporting

Canadian Borrower shall provide Agent and Tranche B Agent with the following documents in a form satisfactory to Required Lenders: (a) on a regular basis as required by Agent, a schedule of Accounts, sales made, credits issued and cash received; (b) on a monthly basis within twenty (20) days after each month end or more frequently as Required Lenders may request, (i) perpetual inventory reports reconciled to the financial statements for such month, (ii) inventory reports by category, (iii) agings of accounts payable reconciled to the financial statements for such month, (iv) a reporting of all Chubb Insurance Company of Canada insured accounts receivable with a statement of any changes or deletions with respect thereto, (v) an officer's certificate from a senior officer of Canadian Borrower confirming that all amounts due and payable by Canadian Borrower and any Obligors in respect of (A) all indebtedness for borrowed money, and (B) all rents payable in respect of Leased Real Property, have been paid on the dates such amounts were due and payable and (vi) a duly completed and executed Borrowing Base Certificate together with any information which Agent requests in connection therewith, which Borrowing Base Certificate shall, in no event, be deemed to limit, impair or otherwise affect the rights of Agent contained in this Agreement and in the event of any conflict or inconsistency between the calculations made in the Borrowing Base Certificate and those made by Agent, although Agent shall be under no obligation to make its own calculations, those made by Agent shall be binding and conclusive on Canadian Borrower absent manifest error; and (vii) an officer's certificate from a senior officer of Canadian Borrower setting forth all due but unpaid tax obligations as of such time; (c) on a weekly basis (or more frequently as Required Lenders may request), within one (1) Business Day following the end of each calendar week, an accounts receivable aged trial balance; (d) upon Agent's request, (i) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements, (ii) copies of shipping and delivery documents, and (iii) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired by Canadian Borrower; (e) agings of accounts receivable on a monthly basis within twenty (20) days after month end or more frequently as Agent may request; and (f) such other reports as to the Collateral as Required Lenders shall request from time to time. If any of Canadian Borrower's records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper or other agent, Canadian Borrower hereby irrevocably authorizes such service, contractor, shipper or agent to deliver such records, reports, and related documents to Agent and to follow Agent's instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

6.2 Accounts Covenants

- (a) Canadian Borrower shall notify Agent and Tranche B Agent promptly of: (i) any material delay in Canadian Borrower's performance of any of its obligations to any account debtor or the assertion of any claims, offsets, defences or counterclaims by any account debtor, or any disputes with account debtors, or any settlement, adjustment or compromise thereof; (ii) all material adverse information relating to the financial condition of any account debtor; and (iii) any event or circumstance which, to Canadian Borrower's knowledge, would cause Agent to consider any then existing Accounts as no longer constituting Eligible Accounts. No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Agent's consent, except in the ordinary course of Canadian Borrower's business in accordance with practices and policies previously disclosed in writing to Agent and Tranche B Agent. So long as no Event of Default exists or has occurred and is continuing, Canadian Borrower shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Agent shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.
- (b) Without limiting the obligation of Canadian Borrower to deliver any other information to Canadian Lenders, Tranche B Agent or Agent, Canadian Borrower shall promptly report to Agent and Tranche B Agent any return of Inventory by any one account debtor if the Inventory so returned in such case has a value in excess of US\$50,000. At any time that Inventory is returned, reclaimed or repossessed, the Account (or portion thereof) which arose from the sale of such returned, reclaimed or repossessed Inventory shall not be deemed an Eligible Account. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, Canadian Borrower shall, upon Agent's request: (i) hold the returned Inventory in trust for Agent; (ii) segregate all returned Inventory from all of its other property; (iii) dispose of the returned Inventory solely according to Agent's instructions; (iv) not issue any credits, discounts or allowances with respect thereto without Agent's prior written consent; and (v) inform Agent and Tranche B Agent of any and all such action.
- (c) With respect to each Account: (i) the amounts shown on any invoice delivered to Agent or Tranche B Agent or schedule thereof delivered to Agent or Tranche B Agent shall be true and complete; (ii) no payments shall be made thereon except payments immediately delivered to Agent pursuant to the terms of this Agreement; (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Agent and Tranche B Agent in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of Canadian Borrower's business in accordance with practices and policies

previously disclosed in writing to Agent and Tranche B Agent; (iv) there shall be no set-offs, deductions, contras, defences, counterclaims or disputes existing or asserted with respect thereto except as reported to Agent and Tranche B Agent in accordance with the terms of this Agreement; and (v) none of the transactions giving rise thereto will violate any applicable foreign, federal, provincial, state, municipal or local laws or regulations, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

- (d) Agent shall have the right at any time or times, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.
- (e) Canadian Borrower shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to Canadian Borrower, all chattel paper and instruments which Canadian Borrower now owns or may at any time acquire immediately upon Canadian Borrower's receipt thereof, except as Required Lenders may otherwise agree.
- (f) Agent may, at any time or times that an Event of Default exists or has occurred and is continuing: (i) notify any or all account debtors that the Accounts have been assigned to Agent and that Agent has a Lien therein and Agent may direct any or all accounts debtors to make payment of Accounts directly to Agent; (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations; (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Agent shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto; and (iv) take whatever other action Agent, Tranche B Agent and/or Canadian Lenders may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Agent's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Agent and are payable directly and only to Agent and Canadian Borrower shall deliver to Agent such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Agent may require.

6.3 Inventory Covenants

With respect to the Inventory: (a) Canadian Borrower shall at all times maintain inventory records satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Canadian Borrower's cost therefor and daily withdrawals therefrom and additions thereto; (b) Canadian Borrower shall conduct a

physical count of the Inventory at least once each year, but at any time or times as Agent may request on or after an Event of Default, and promptly following such physical inventory shall supply Agent and Tranche B Agent with a report in the form and with such specificity as may be satisfactory to Agent concerning such physical count; (c) Canadian Borrower shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales of Inventory in the ordinary course of Canadian Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) upon Agent's and Tranche B Agent's request, Canadian Borrower shall, at its expense, but no more than once in any six (6) month period, but at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent and Tranche B Agent written reports or appraisals as to the Inventory in form, scope and methodology acceptable to Required Lenders and by an appraiser acceptable to Required Lenders, addressed to Agent or upon which Agent is expressly permitted to rely; (e) Canadian Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws; (f) Canadian Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (g) Canadian Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate Canadian Borrower to repurchase such Inventory; (h) Canadian Borrower shall keep the Inventory in good and marketable condition; (i) Canadian Borrower shall not, without prior written notice to Agent and Tranche B Agent, acquire or accept any Inventory on consignment or approval and (j) none of the Inventory or other Collateral constitutes farm products or the proceeds thereof.

6.4 Equipment Covenants

With respect to the Equipment: (a) Canadian Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (b) Canadian Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (c) the Equipment is and shall be used in Canadian Borrower's business and not for personal, family, household or farming use; (d) Canadian Borrower shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of Canadian Borrower or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of Canadian Borrower in the ordinary course of business; (e) the Equipment is now and shall remain personal property and Canadian Borrower shall not permit any of the Equipment to be or become a part of or affixed to real property; and (f) Canadian Borrower assumes all responsibility and liability arising from the use of the Equipment.

6.5 Power of Attorney

Canadian Borrower hereby irrevocably designates and appoints Agent (and all persons designated by Agent) as Canadian Borrower's true and lawful attorney-in-fact, and authorizes Agent, in Canadian Borrower's or Agent's name, to: (a) at any time a Default or an Event of Default exists or has occurred and is continuing: (i) demand payment on Accounts or other proceeds of Inventory or other Collateral, (ii) enforce payment of Accounts by legal proceedings

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

6.6 Right to Cure

Agent may, at its option: (a) cure any default by Canadian Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against Canadian Borrower; (b) discharge taxes, Liens or other encumbrances at any time levied on or existing with respect to the Collateral; and (c) pay any amount, incur any expense or perform any act which, in Agent's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent with respect thereto. Agent may add any amounts so expended to the Obligations and charge Canadian Borrower's account therefor, such amounts to be repayable by Canadian Borrower on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Canadian Borrower. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

6.7 Access to Premises

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

Section 7 Representations And Warranties

Canadian Borrower hereby represents and warrants to Agent, Tranche B Agent and Canadian Lenders the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations by Agent, Tranche B Agent and Canadian Lenders to Canadian Borrower:

7.1 Corporate Existence, Power and Authority; Subsidiaries

Canadian Borrower is a corporation duly incorporated, validly existing and duly organized under the laws of its jurisdiction of incorporation and is duly qualified or registered as a foreign or extra-provincial corporation in all provinces, states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Canadian Borrower's financial condition, results of operation or business or the rights of Agent in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and US Financing Agreements and the transactions contemplated hereunder and thereunder are all within Canadian Borrower's corporate powers, have been duly authorized, are not in contravention of law or the terms of Canadian Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Canadian Borrower is a party or by which Canadian Borrower or its property is bound and will not result in the creation or imposition of, or require or give rise to any obligation to grant, any Lien upon any of its property or assets. This Agreement and the other Financing Agreements and US Financing Agreements constitute legal, valid and binding obligations of Canadian Borrower enforceable in accordance with their respective terms. Canadian Borrower does not have any Subsidiaries or affiliates except as set forth on the Information Certificate.

7.2 Financial Statements; No Material Adverse Change

All financial statements relating to Canadian Borrower which have been or may hereafter be delivered by Canadian Borrower to Agent and Tranche B Agent have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of Canadian Borrower as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Canadian Borrower to Agent and Tranche B Agent prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Canadian Borrower, since the date of the most recent audited financial statements furnished by Canadian Borrower to Agent and Tranche B Agent prior to the date of this Agreement.

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

- (a) The exact legal name of Canadian Borrower is as set forth on the signature page of this Agreement and in its Information Certificate. Canadian Borrower has not, during the five (5) years prior to the date of this Agreement, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in its Information Certificate.
- (b) Canadian Borrower is an organization of the type and organized in the jurisdiction set forth in its Information Certificate. Its Information Certificate accurately sets forth the organizational identification number of Canadian Borrower or accurately states that Canadian Borrower has none and accurately sets forth the federal employer identification number of Canadian Borrower.
- (c) The chief executive office of Canadian Borrower and Canadian Borrower's Records concerning Accounts are located only at the address set forth below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of Canadian Borrower to establish new locations in accordance with Section 8.2 below. The Information Certificate correctly identifies the chief executive office of each Obligor and all other places of business and other locations, if any, at which any Obligor maintains any Collateral. The Information Certificate also correctly identifies any of such locations which are not owned by Canadian Borrower or any Obligor and sets forth the owners and/or operators thereof and to the best of Canadian Borrower's knowledge, the holders of any mortgages on such locations.

7.4 Priority of Liens; Title to Properties

The Liens granted to Agent under this Agreement and the other Financing Agreements constitute valid and perfected first priority Liens in and upon the Collateral subject only to the Liens indicated on Schedule 7.4 hereto (except to the extent that Agent and Tranche B Agent require the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder) and the other Liens permitted under Section 8.8 hereof. Canadian

Borrower has good and marketable title to all of its properties and assets subject to no Liens of any kind, except those granted to Agent and such others as are specifically listed on Schedule 7.4 hereto (except to the extent that Agent and Tranche B Agent require the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder) or permitted under Section 8.8 hereof.

7.5 Tax Returns

Canadian Borrower has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Agent and Tranche B Agent). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Canadian Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Canadian Borrower and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid federal, provincial, municipal, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

7.6 Litigation

Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of Canadian Borrower's knowledge threatened, against or affecting Canadian Borrower, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Canadian Borrower's knowledge threatened, against Canadian Borrower or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Canadian Borrower would result in any material adverse change in the assets, business or prospects of Canadian Borrower or would impair the ability of Canadian Borrower to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Agent, Tranche B Agent and/or Canadian Lenders to enforce any Obligations or realize upon any Collateral.

7.7 Compliance with Other Agreements and Applicable Laws

- (a) Canadian Borrower is not in default in any material respect, under, or in violation, in any material respect, of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound and Canadian Borrower is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, federal, provincial or local governmental authority (including all Environmental Laws).
- (b) Canadian Borrower has obtained all material permits, licenses, approvals, consents, certificates, orders or authorizations of any governmental authority required for the lawful conduct of its business (the "**Permits**"). All of the Permits are valid and subsisting and in full force and effect. There are no actions, claims or proceedings pending or to the best of Canadian Borrower's knowledge, threatened that seek the revocation, cancellation, suspension or modification of any of the Permits.

7.8 Bank Accounts

All of the deposit accounts, investment accounts or other accounts in the name of or used by Canadian Borrower maintained at any bank or other financial institution are set forth on Schedule 7.8 hereto, subject to the right of Canadian Borrower to establish new accounts in accordance with Section 8.14 below.

7.9 Accuracy and Completeness of Information

All information furnished by or on behalf of Canadian Borrower in writing to Agent, Tranche B Agent or Canadian in connection with this Agreement or any of the other Financing Agreements or US Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on the business, assets or prospects of Canadian Borrower, which has not been fully and accurately disclosed to Agent and Tranche B Agent in writing.

7.10 Status of Pension Plans

- (a) The Pension Plans (if any) are duly registered under all applicable provincial pension benefits legislation.
- (b) All obligations of Canadian Borrower (including fiduciary, funding, investment and administration obligations) required to be performed in connection with any Pension Plans or the funding agreements therefor have been performed in a timely fashion. There are no outstanding disputes concerning the assets held pursuant to any such funding agreement.
- (c) All contributions or premiums required to be made by Canadian Borrower to any Pension Plans have been made in a timely fashion in accordance with the terms of such Pension Plans and applicable laws and regulations.
- (d) All employee contributions to any Pension Plans required to be made by way of authorized payroll deduction have been properly withheld by Canadian Borrower and fully paid into such Pension Plans in a timely fashion.
- (e) All reports and disclosures relating to any Pension Plans required by any applicable laws or regulations have been filed or distributed in a timely fashion.
- (f) There have been no improper withdrawals, or applications of, the assets of any Pension Plans.
- (g) No amount is owing by any Pension Plans under the ITA or any provincial taxation statute.

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- (h) Pension Plans are fully funded both on an ongoing basis and on a solvency basis (using actuarial assumptions and methods which are consistent with the valuations last filed with the applicable governmental authorities and which are consistent with generally accepted actuarial principles).
 - (i) Canadian Borrower, after diligent inquiry, has neither any knowledge, nor any grounds for believing, that any Pension Plans are the subject of an investigation, any other proceeding, an action or a claim (other than claims for benefits in the ordinary course). There exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such proceeding, action or claim.

7.11 Environmental Compliance

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

7.12 Intellectual Property

Canadian Borrower owns or licenses or otherwise has the right to use all intellectual property necessary for the operation of its business as presently conducted or proposed to be conducted. As of the Closing Date, Canadian Borrower does not have any intellectual property registered, or subject to pending applications, in the Canadian Intellectual Property Office or any similar office or agency in the US or Canada, any State or Province thereof, any political subdivision thereof or in any other country, other than those described in the Information Certificate and has not granted any licenses with respect thereto other than as set forth in the Information Certificate. No event has occurred which permits or would permit after notice or passage of time or both, the revocation, suspension or termination of such rights. No product, process, method, substance or other intellectual property or goods bearing or using any intellectual property presently contemplated to be sold by or employed by Canadian Borrower infringes any patent, trademark, service mark, trade name, copyright, license or other intellectual property owned by any other Person presently and no claim or litigation is pending or threatened against or affecting Canadian Borrower contesting its right to sell or use any such intellectual property. The Information Certificate sets forth all of the agreements or other arrangements of Canadian Borrower pursuant to which Canadian Borrower has a license or other right to use any trademarks, logos, designs, representations or other intellectual property owned by another person as in effect on the Closing Date and the dates of the expiration of such agreement or other arrangements of Canadian Borrower as in effect on the Closing Date (collectively, together with such agreement or other arrangement as may be entered into by Canadian Borrower after the Closing Date, collectively, the “**License Agreements**” and individually, a “**License Agreement**”). No trademark, service mark, copyright or other intellectual property at any time used by Canadian Borrower which is owned by another person, or owned by Canadian Borrower subject to any security interest, lien, collateral assignment, pledge or other encumbrance in favour of any person other than Agent, is affixed to any Eligible Inventory, except (a) to the extent permitted under the terms of the License Agreement(s) listed in the Information Certificate (if any); and (b) to the extent the sale of Inventory to which such intellectual property is affixed is permitted to be sold by Canadian Borrower under applicable law.

7.13 Subsidiaries; Affiliates; Capitalization; Solvency

- (a) Canadian Borrower does not have any direct or indirect Subsidiaries or Affiliates and is not engaged in any joint venture or partnership except as set forth in the Information Certificate.
- (b) Canadian Borrower is the record and beneficial owner of all of the issued and outstanding shares in the capital of each of the Subsidiaries listed in the Information Certificate as being owned by Canadian Borrower and there are no proxies, irrevocable or otherwise, with respect to such shares and no equity securities of any of the Subsidiaries are or may become required to be issued by reason of any options, warrants, rights to subscribe to, calls or commitments of any kind or nature and there are no contracts, commitments, understandings or arrangements by which any Subsidiary is or may become bound to issue additional shares or securities convertible into or exchangeable for such shares.

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- (c) The issued and outstanding shares in the capital of Canadian Borrower is directly and beneficially owned and held by the persons indicated in the Information Certificate, and in each case all of such shares have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind, except as disclosed in writing to Agent and Tranche B Agent prior to the Closing Date.
 - (d) Canadian Borrower is Solvent and will continue to be Solvent after the creation of the Obligations, the Liens of Agent and the other transactions contemplated hereunder.

7.14 Survival of Warranties; Cumulative

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

7.15 Inactive Subsidiaries

No Inactive Subsidiary (a) has any assets (other than intercompany receivables), (b) has any liabilities (other than intercompany liabilities) or (c) engages in any material business activities.

7.16 Labour Disputes

- (a) Set forth on Schedule 7.16 hereto is a list (including dates of termination) of all collective bargaining or similar agreements between or applicable to Canadian Borrower and any union, labour organization or other bargaining agent in respect of the employees of Canadian Borrower or its Subsidiaries on the Closing Date.
- (b) There is (i) no significant unfair labour practice complaint pending against Canadian Borrower or, to the best of Canadian Borrower's knowledge, threatened against it and no significant grievance or arbitration proceeding arising out of or under any collective bargaining agreement is pending on the Closing Date against Canadian Borrower or, to best of Canadian Borrower's knowledge, threatened against it, (ii) no significant strike, labour dispute, slowdown or stoppage pending against Canadian Borrower or, to the best of Canadian Borrower's knowledge, threatened against Canadian Borrower and (iii) to the best knowledge of Canadian Borrower, no union representation question existing with respect to the employees of Canadian Borrower and no union organizing activity taking place with respect to any of the employees of Canadian Borrower. Canadian Borrower has not incurred any liability or obligation under any labour or similar state law,

which remains unpaid or unsatisfied. The hours worked and payments made to employees or Canadian Borrower has not been in violation of any employment statute or any other applicable legal requirements. All material payments due from Canadian Borrower on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of Canadian Borrower.

7.17 Intentionally Deleted.

Section 8 Affirmative and Negative Covenants

8.1 Maintenance of Existence

- (a) Canadian Borrower shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Canadian Borrower shall give Agent and Tranche B Agent thirty (30) days prior written notice of any proposed change in its or any Obligor's corporate name, which notice shall set forth the new name and Canadian Borrower shall deliver to Agent and Tranche B Agent a certified copy of the Articles of Amendment of Canadian Borrower providing for the name change immediately following its filing.
- (b) Canadian Borrower shall not change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall not acquire one) unless Agent and Tranche B Agent shall have received not less than thirty (30) days' prior written notice from Canadian Borrower of such proposed change, which notice shall set forth such information with respect thereto as Required Lenders may require and Agent and Tranche B Agent shall have received such agreements as Required Lenders may reasonably require in connection therewith. Canadian Borrower shall not change its type of organization, jurisdiction of organization or other legal structure.

8.2 New Collateral Locations

Canadian Borrower may open any new location within Canada provided Canadian Borrower (a) gives Agent and Tranche B Agent thirty (30) days prior written notice of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Agent and Tranche B Agent such agreements, documents, and instruments as Required Lenders may deem necessary or desirable to protect their interests in the Collateral at such location, including PPSA and other financing statements and such other evidence as Required Lenders may require for the perfection of Agent's first priority Liens.

8.3 Compliance with Laws, Regulations, Etc.

- (a) Canadian Borrower shall at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it

and duly observe in all material respects all requirements of any federal, provincial, municipal or local governmental authority, including all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws except for any matter that Canadian Borrower is contesting in good faith by appropriate proceedings diligently pursued and which is not reasonably expected to have a material adverse effect on Canadian Borrower or its property, operations, business, prospects or conditions (financial or otherwise).

- (b) Canadian Borrower shall establish and maintain, at its expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by its employees or agents of Canadian Borrower who are familiar with the requirements of the Environmental Laws. Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by Canadian Borrower to Agent and Tranche B Agent. Canadian Borrower shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Agent and Tranche B Agent on such response.
- (c) Canadian Borrower shall give both oral and written notice to Agent and Tranche B Agent immediately upon Canadian Borrower's receipt of any notice of, or Canadian Borrower's otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material where notice of such occurrence would be required to be given by Canadian Borrower to an applicable governmental authority or any other person under Environmental Laws or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by Canadian Borrower or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or (D) any other environmental, health or safety matter, which affects Canadian Borrower or its business, operations or assets or any properties at which Canadian Borrower transported, stored or disposed of any Hazardous Materials.
- (d) Without limiting the generality of the foregoing, whenever Required Lenders determine that there is material non-compliance, or any condition which requires any action by or on behalf of Canadian Borrower in order to avoid any material non-compliance, with any Environmental Law, Canadian Borrower shall, at such Required Lenders' request, and Canadian Borrower's expense:
 - (i) cause an independent environmental engineer acceptable to such Required Lenders to conduct such tests of the site where Canadian Borrower's non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Agent and Tranche B Agent a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof and
 - (ii) provide to Agent and Tranche B Agent a supplemental

report of such engineer whenever the scope of such non-compliance, or Canadian Borrower's response thereto or the estimated costs thereof, shall change in any material respect.

- (e) Canadian Borrower shall indemnify and hold harmless Canadian Lenders, Tranche B Agent, Agent and their respective directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including legal fees and expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of Canadian Borrower and the preparation and implementation of any closure, remedial or other required plans.

All covenants and indemnifications in this Section 8.3 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

8.4 Payment of Taxes and Claims

Canadian Borrower shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Canadian Borrower and with respect to which adequate reserves have been set aside on its books.

8.5 Insurance

Canadian Borrower shall at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Required Lenders as to form, amount and insurer. Canadian Borrower shall furnish certificates, policies or endorsements to Agent and Tranche B Agent as Agent and Required Lenders shall require as proof of such insurance, and, if Canadian Borrower fails to do so, each of Agent and Tranche B Agent is authorized, but not required, to obtain such insurance at the expense of Canadian Borrower. All policies shall provide for at least thirty (30) days prior written notice to Agent of any cancellation or reduction of coverage and that Agent may act as attorney for Canadian Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Canadian Borrower shall cause Agent to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and Canadian Borrower shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Required Lenders. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Agent as its interests may appear and further specify that Agent shall be paid regardless of any act or omission by Canadian Borrower or any of its affiliates. Such proceeds shall be applied in accordance with Section 2.3 and Section 5.4 of this Agreement, as applicable.

8.6 Financial Statements and Other Information

- (a) Canadian Borrower shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Canadian Borrower and its Subsidiaries in accordance with GAAP and Canadian Borrower shall furnish or cause to be furnished to Agent and Tranche B Agent:
- (i) within twenty (30) days after the end of each fiscal month or within forth-five (45) days after the end of a fiscal month that is the month end of a fiscal quarter of SMTC Corporation, monthly unaudited financial statements of Canadian Borrower and US Borrowers and unaudited consolidating financial statements of SMTC Corporation (including in each case balance sheets, statements of income and loss, statements of cash flow, statements of shareholders' equity, sales backlog reports and sales and profitability reports for the ten (10) largest customers of SMTC and its Subsidiaries), all in reasonable detail, fairly presenting the financial position and the results of the operations of US Borrowers, Canadian Borrower and SMTC Corporation and their respective Subsidiaries as of the end of and through such fiscal month;
 - (ii) within forty-five (45) days after the end of each fiscal quarter of SMTC Corporation, quarterly unaudited financial statements of Canadian Borrower and US Borrowers and unaudited consolidating financial statements of SMTC Corporation (including in each case balance sheets, statements of income and loss, statements of cash flow, statements of shareholders' equity, sales backlog reports and sales and profitability reports for the ten (10) largest customers of SMTC and its Subsidiaries), all in reasonable detail, fairly presenting the financial position and the results of the operations of US Borrowers, Canadian Borrower and SMTC Corporation and their respective Subsidiaries as of the end of and through such fiscal quarter together with a certificate of the chief financial officer of Canadian Borrower in form and content satisfactory to Canadian Lenders (each, an "**Officer's Compliance Certificate**") setting out the Total Leverage Ratio for the calculation of the Applicable Margin and compliance with Sections 8.19, 8.23, 8.24 and 0 each as at the end of the most recent fiscal quarter of SMTC Corporation, and the calculations used to determine such ratio and compliance and attaching the financial statements used to determine such ratio and compliance;
 - (iii) within ninety (90) days after the end of each fiscal year of SMTC Corporation, audited consolidated financial statements of SMTC Corporation (which includes US Borrowers, Canadian Borrower and their respective Subsidiaries (including in each case balance sheets, statements of income and loss, statements of changes in financial position and statements of shareholders' equity)), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of the applicable Person and its Subsidiaries as of

the end of and for such fiscal year, together with the unqualified opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by SMTC Corporation and acceptable to Canadian Lenders, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of the applicable Person and its Subsidiaries as of the end of and for the fiscal year then ended;

- (iv) not less than sixty (60) days prior to the end of each fiscal year of SMTC Corporation, annual financial projections for the next fiscal year of SMTC Corporation and its Subsidiaries, which shall be approved by Canadian Lenders and shall include a projected consolidated balance sheet, income statement and statement of cash flow, prepared on a monthly basis for such fiscal year, proposed budgets for operating and capital expenditures, acquisitions and related financing costs for SMTC Corporation and its Subsidiaries, details of all management salaries and bonuses, and such other information as may be requested by Agent and Tranche B Agent; and
 - (v) not less than thirty (30) days prior to the end of each fiscal quarter of SMTC Corporation, quarterly financial projections for the next fiscal quarter of SMTC Corporation and its Subsidiaries, which shall be approved by Canadian Lenders and shall include a projected consolidated balance sheet, income statement and statement of cash flow, prepared on a monthly basis for such fiscal quarter, proposed budgets for operating and capital expenditures, acquisitions and related financing costs for SMTC Corporation and its Subsidiaries, details of all management salaries and bonuses, and such other information as may be requested by Agent and Tranche B Agent.
- (b) Canadian Borrower shall promptly notify Agent and Tranche B Agent in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in its business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Default or Event of Default.
 - (c) Canadian Borrower shall promptly after the sending or filing thereof furnish or cause to be furnished to Agent and Tranche B Agent copies of all reports which it sends to its shareholders generally and copies of all reports and registration statements which it files with any provincial securities commission or securities exchange.
 - (d) Canadian Borrower shall furnish or cause to be furnished to Agent and Tranche B Agent such budgets, forecasts, projections and other information respecting the Collateral and the business of Canadian Borrower, as Agent and Tranche B Agent may, from time to time, request. Agent and Tranche B Agent are hereby authorized to deliver a copy of any financial statement or any other information

relating to the business of Canadian Borrower to (i) any court or other government agency as required or requested by such court or other government agency or if Agent and Tranche B Agent reasonably believe it is compelled to do so by any court decree, subpoena or legal or administrative order or process or (ii) any participant or assignee or prospective participant or assignee provided such prospective participant or assignee agrees to maintain such information confidential and not disclose it to any other Person pursuant to the terms of a confidentiality agreement satisfactory to Canadian Lenders and entered into between Agent and such prospective participant or assignee or until such prospective participant or assignee becomes a participant or assignee pursuant to the terms of Section 11.4 hereof. Canadian Borrower hereby irrevocably authorizes and directs all accountants or auditors to deliver to Agent and Tranche B Agent, at Canadian Borrower's expense, copies of the financial statements of Canadian Borrower and any reports or management letters prepared by such accountants or auditors on behalf of Canadian Borrower and to disclose to Agent and Tranche B Agent such information as they may have regarding the business of Canadian Borrower. Any documents, schedules, invoices or other papers delivered to Agent and Tranche B Agent may be destroyed or otherwise disposed of by Agent and Tranche B Agent one (1) year after the same are delivered to Agent and Tranche B Agent, except as otherwise designated by Canadian Borrower to Agent and Tranche B Agent in writing.

- (e) Canadian Borrower shall within five (5) Business Days after the end of each month provide a certificate of its chief financial officer, in form and content satisfactory to Canadian Lenders, certifying that it has paid in full: (i) all rent and other amounts due and payable with respect to any Leased Real Property during such month; and (ii) all payments and other amounts due and payable with respect to any Pension Plan or any material contract during such month.

8.7 Sale of Assets, Consolidation, Amalgamation, Dissolution, Etc.

Canadian Borrower shall not, directly or indirectly, (a) amalgamate with any other Person or permit any other Person to amalgamate with it or amalgamate into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, or (b) sell, issue, assign, lease, transfer, abandon or otherwise dispose of any shares or indebtedness to any other Person or any of its assets to any other Person (except for (i) transfers to an Obligor that has executed and delivered a general security agreement or other similar security in favour of Agent granting it a first-ranking, registered and enforceable Lien (as determined by Agent, as applicable) in respect of all the undertaking, property and assets, present and future, real and personal, of such Obligor, (ii) sales of Inventory in the ordinary course of business and (iii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of Canadian Borrower so long as (A) any proceeds are paid to Agent and applied in accordance with Sections 2.3 and 5.4 of this Agreement, as applicable and (B) such sales do not involve Equipment having an aggregate fair market value in excess of US\$50,000 for all such Equipment disposed of in the fiscal year of Canadian Borrower), or (c) form or acquire any Subsidiaries, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing.

8.8 Encumbrances

Canadian Borrower shall not create, incur, assume or suffer to exist any Lien of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) Liens of Agent; (b) Liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Canadian Borrower and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory Liens (other than Liens securing the payment of taxes) arising in the ordinary course of Canadian Borrower's business to the extent: (i) such Liens secure indebtedness which is not overdue or (ii) such Liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Canadian Borrower, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Canadian Borrower as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) Liens securing any Capital Expenditures permitted by Section 8.25; and (f) the Liens set forth on Schedule 7.4 hereto (except to the extent that Tranche B Agent and/or Agent requires the discharge thereof prior to the advance of the initial Loans and Letter of Credit Accommodations hereunder).

8.9 Indebtedness

Canadian Borrower shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except (a) the Obligations; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which Canadian Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Canadian Borrower, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by Liens (including capital leases) in violation of any other provision of this Agreement; and (d) the indebtedness set forth on Schedule 8.9 hereto; provided, that, (i) Canadian Borrower may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the Closing Date, (ii) Canadian Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the Closing Date, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Canadian Borrower shall furnish to Agent and Tranche B Agent all notices or demands in connection with all such indebtedness either received by Canadian Borrower or on its behalf, promptly after the receipt thereof, or sent by Canadian Borrower or on its behalf, concurrently with the sending thereof, as the case may be.

8.10 Loans, Investments, Guarantees, Etc.

Canadian Borrower shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the shares or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in: (i) short-term direct obligations of the Canadian Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Agent, payable to the order of Canadian Borrower or to bearer and delivered to Agent, and (iii) commercial paper rated A1 or P1; provided, that, as to any of the foregoing, unless waived in writing by Required Lenders, Canadian Borrower shall take such actions as are deemed necessary by Required Lenders to perfect the security interest of Agent in such investments; (c) the loans, advances and guarantees set forth on Schedule 8.10 hereto; provided, that, as to such loans, advances and guarantees, (i) Canadian Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose, and (ii) Canadian Borrower shall furnish to Agent and Tranche B Agent all notices or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by Canadian Borrower or on its behalf, promptly after the receipt thereof, or sent by Canadian Borrower or on its behalf, concurrently with the sending thereof, as the case may be; and (d) loans to SMTC Corporation and/or HTM not to exceed the amount, and to the extent such amount has not already been paid as dividends or loans to SMTC Corporation and/or HTM as provided, and for the purposes set forth, in Section 8.11 of this Agreement and Sections 8.10 and 8.11 of the US Loan Agreement, required in any fiscal year of SMTC Corporation to allow (i) SMTC Corporation to pay its consolidated income taxes payable and (ii) SMTC Corporation and HTM to pay their respective administrative costs (being the legal and audit fees and insurance costs payable by SMTC Corporation on behalf of its Subsidiaries) consistent with past practice (as disclosed in writing to Agent prior to the Closing Date) up to US\$2,500,000 in the aggregate per fiscal year of SMTC Corporation.

8.11 Dividends and Redemptions

Canadian Borrower shall not, directly or indirectly, declare or pay any dividends on account of any shares of Canadian Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common shares or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing; provided, however, that Canadian Borrower may pay dividends to SMTC Corporation and/or HTM not to exceed the amount, and to the extent such amount has not already been provided by way of loans or dividends to SMTC Corporation and/or HTM as provided, and for the purposes set forth, in Section 8.10, of this Agreement and Sections 8.10 and 8.11 of the Canadian Loan Agreement, required in any fiscal year of SMTC Corporation to allow (i) SMTC Corporation to pay its consolidated income taxes payable with

respect to its investment in Canadian Borrower and (ii) SMTC Corporation and HTM to pay their respective administrative costs (being the legal and audit fees and insurance costs payable by SMTC Corporation on behalf of its Subsidiaries) consistent with past practice (as disclosed in writing prior to the Closing Date) up to US\$2,500,000 in the aggregate per fiscal year of SMTC Corporation.

8.12 Transactions with Affiliates

Canadian Borrower shall not, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with Canadian Borrower, except in the ordinary course of and pursuant to the reasonable requirements of Canadian Borrower's business and upon fair and reasonable terms no less favorable to the Canadian Borrower than Canadian Borrower would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with Canadian Borrower except reasonable compensation to officers, employees and directors for services rendered to Canadian Borrower in the ordinary course of business.

8.13 Intellectual Property

In the event Canadian Borrower obtains or applies for any material intellectual property rights or obtains any material licenses with respect thereto, Canadian Borrower shall immediately notify Agent and Tranche B Agent thereof and shall provide to Agent and Tranche B Agent copies of all written materials including applications and licenses with respect to such intellectual property rights. At Agent's or Tranche B Agent's request, Canadian Borrower shall promptly execute and deliver to Agent an intellectual property security agreement granting to Agent a perfected Lien in such intellectual property rights in form and substance satisfactory to Required Lenders.

8.14 Additional Bank Accounts

Canadian Borrower shall not, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in Schedule 7.8 hereto, except: (a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Required Lenders and subject to such conditions thereto as Required Lenders may establish and (b) as to any accounts used by Canadian Borrower to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Agent and Tranche B Agent.

8.15 Applications under the Companies' Creditors Arrangement Act or BIA

Canadian Borrower acknowledges that its business and financial relationships with Agent, Tranche B Agent and Canadian Lenders are unique from its relationship with any other of its creditors. Canadian Borrower agrees that it shall not file any plan of arrangement (a "**Plan of Arrangement**") under the CCAA or under the BIA which provides for, or would permit directly or indirectly, Agent, Tranche B Agent and Canadian Lenders to be classified with any other creditor of Canadian Borrower for purposes of such Plan of Arrangement or otherwise.

8.16 Operation of Pension Plans

- (a) Canadian Borrower shall administer the Pension Plans in accordance with the requirements of the applicable pension plan texts, funding agreements, the ITA and applicable provincial pension benefits legislation.
- (b) Canadian Borrower shall deliver to Agent and Tranche B Agent an undertaking of the funding agent for each of the Pension Plans stating that the funding agent will notify Agent and Tranche B Agent within 7 days of Canadian Borrower's failure to make any required contribution to the applicable Pension Plan.
- (c) Canadian Borrower shall promptly provide Agent and Canadian Lenders with any documentation relating to any of the Pension Plans as Agent and Canadian Lenders may request. Canadian Borrower shall notify Agent and Canadian Lenders within 30 days of (i) a material increase in the liabilities of any of the Pension Plans, (ii) the establishment of a new registered pension plan, and (iii) commencing payment of contributions to a Pension Plan to which Canadian Borrower had not previously been contributing.

8.17 Costs and Expenses

Canadian Borrower shall pay to Canadian Lenders, Tranche B Agent and/or Agent on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Canadian Lenders', Tranche B Agent's and Agent's rights in the Collateral, this Agreement and the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including PPSA financing statements and other similar filing and recording fees and taxes, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) all insurance premiums, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, if any, and the Payment Accounts, together with Agent's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the Liens of Agent, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Canadian Lenders, Tranche B Agent and/or Agent arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (g) (x) all out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by Canadian Lenders, Tranche B Agent and/or Agent during the course of periodic audits, inspections, appraisals, valuations and field examinations of the Collateral and Canadian Borrower's operations, plus (y) a per diem charge at the rate of US\$800 per person per day for Agent's examiners in the field and office; and (h) the reasonable fees and disbursements of counsel (including legal assistants) to Canadian Lenders, Tranche B Agent and Agent in connection with any of the foregoing.

8.18 Further Assurances

At the request of Tranche B Agent or the Agent at any time and from time to time, Canadian Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the Liens and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Agent and Tranche B Agent may at any time and from time to time request a certificate from an officer of Canadian Borrower representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Agent or Tranche B Agent, Canadian Lenders shall cease to make any further Loans or provide any further Letter of Credit Accommodations until Agent or Tranche B Agent, as applicable, has received such certificate and, in addition, Canadian Lenders have determined that such conditions are satisfied. Where permitted by law, Canadian Borrower hereby authorizes Agent to execute and file one or more PPSA or other financing statements or notices signed only by Agent or its representatives.

8.19 EBITDA

Canadian Borrower shall ensure that EBITDA for SMTC Corporation and its Subsidiaries, calculated at the end of each fiscal quarter on a consolidated rolling four (4) fiscal quarter basis and in accordance with GAAP, shall not be less than the amounts set forth in the table below:

<u>End of Fiscal Quarter</u>	<u>TTM EBITDA</u>
September 2007	US\$11,000,000
December 2007	US\$11,000,000
March 2008	US\$11,000,000
June 2008	US\$11,000,000
September 2008	US\$11,250,000
December 2008	US\$11,250,000
March 2009	US\$11,250,000
June 2009	US\$11,250,000
September 2009	US\$11,500,000
December 2009	US\$11,500,000
March 2010	US\$11,500,000
June 2010	US\$11,500,000
September 2010	US\$12,000,000
December 2010	US\$12,000,000
March 2011	US\$12,000,000
June 2011	US\$12,000,000
September 2011	US\$12,000,000
December 2011	US\$12,000,000

End of Fiscal Quarter	TTM EBITDA
March 2012	US\$12,000,000
Thereafter	US\$12,000,000

For purposes of calculating the EBITDA covenant, the following amounts shall be used in respect of the applicable fiscal quarter:

Fiscal Quarter Ending	EBITDA
December 2006	US\$4,485,000
March 2007	US\$4,399,000
June 2007	US\$3,983,000

8.20 Inactive Subsidiaries

Canadian Borrower shall not, without the prior written consent of Required Lenders permit, or allow any of its Subsidiaries or affiliates to permit, any Inactive Subsidiary to (a) acquire any assets (other than intercompany receivables), (b) incur any liabilities (other than intercompany liabilities) or (c) engage in any material business activities.

8.21 End of Fiscal Years; Fiscal Quarters

- For financial reporting purposes, Canadian Borrower shall cause its, and each of its Subsidiaries' and affiliates', fiscal year to end on December 31 of each year (being the fiscal year end of SMTC Corporation).
- For financial reporting purposes, Canadian Borrower shall cause its, and each of its Subsidiaries' or affiliates', 13 week fiscal periods to end on the same dates of each fiscal period end of SMTC Corporation.

8.22 Change in Business

Canadian Borrower shall not engage in any business other than the business of Canadian Borrower on the Closing Date and any business reasonably related, ancillary or complementary to the business in which Canadian Borrower is engaged on the Closing Date.

8.23 Fixed Charge Coverage Ratio

Canadian Borrower shall ensure that SMTC Corporation and its Subsidiaries maintain a Fixed Charge Coverage Ratio of not less than the ratios set forth in the table below calculated at the end of each fiscal quarter on a consolidated rolling four (4) fiscal quarter basis:

End of Fiscal Quarter	Minimum Fixed Charge Coverage Ratio
September 2007	1.20
December 2007	1.20
March 2008	1.20

<u>End of Fiscal Quarter</u>	<u>Minimum Fixed Charge Coverage Ratio</u>
June 2008	1.20
September 2008	1.20
December 2008	1.20
March 2009	1.20
June 2009	1.25
September 2009	1.25
December 2009	1.25
March 2010	1.25
June 2010	1.25
September 2010	1.25
December 2010	1.25
March 2011	1.25
June 2011	1.25
September 2011	1.25
December 2011	1.25
March 2012	1.25
Thereafter	1.25

For purposes of calculating the Fixed Charge Coverage Ratio, the following amounts shall be used in respect of the applicable fiscal quarter:

<u>Fiscal Quarter Ending</u>	<u>Interest Expense</u>	<u>Scheduled Principal Payments</u>	<u>Capital Expenditures</u>	<u>EBITDA</u>
December 2006	US\$1,995,000	US\$768,000	US\$534,000	US\$4,485,000
March 2007	US\$1,682,000	US\$768,000	US\$309,000	US\$4,399,000
June 2007	US\$1,582,000	US\$768,000	US\$1,162,000	US\$3,983,000

8.24 Maximum Total Debt

Canadian Borrower shall ensure that the outstanding Total Debt of SMTC Corporation and its Subsidiaries under this Agreement, the Canadian Loan Agreement and Capital Leases shall not exceed the applicable number set forth in the table below times trailing twelve (12) month EBITDA of SMTC Corporation and its Subsidiaries calculated at the end of each month on a consolidated basis in accordance with GAAP:

<u>End of Month</u>	<u>Maximum Total Debt</u>
September 2007	3.50x
October 2007	3.75x
November 2007	3.50x
December 2007	3.50x

End of Month	Maximum Total Debt
January 2008	3.75x
February 2008	3.50x
March 2008	3.50x
April 2008	3.75x
May 2008	3.50x
June 2008	3.50x
July 2008	3.50x
August 2008	3.25x
September 2008	3.25x
October 2008	3.50x
November 2008	3.25x
December 2008	3.25x
January 2009	3.50x
February 2009	3.25x
March 2009	3.25x
April 2009	3.50x
May 2009	3.25x
June 2009	3.25x
July 2009	3.25x
August 2009	3.00x
September 2009	3.00x
October 2009	3.25x
November 2009	3.00x
December 2009	3.00x
January 2010	3.25x
February 2010	3.00x
March 2010	3.00x
April 2010	3.25x
May 2010	3.00x
June 2010	3.00x
July 2010	3.00x
August 2010	2.75x
September 2010	2.75x
October 2010	3.00x
November 2010	2.75x
December 2010	2.75x
January 2011	3.00x
February 2011	2.75x
March 2011	2.75x

End of Month	Maximum Total Debt
April 2011	3.00x
May 2011	2.75x
June 2011	2.75x
July 2011	3.00x
August 2011	2.75x
September 2011	2.75x
October 2011	3.00x
November 2011	2.75x
December 2011	2.75x
January 2012	3.00x
February 2012	2.75x
March 2012	2.75x
April 2012	3.00x
May 2012	2.75x
June 2012	2.75x
July 2012	3.00x
August 2012	2.75x

For purposes of calculating the Maximum Total Debt covenant, the following amounts of EBITDA shall be used in respect of the applicable fiscal quarter:

Fiscal Quarter Ending	EBITDA
December 2006	US\$4,485,000
March 2007	US\$4,399,000
June 2007	US\$3,983,000

On the first test date, the Chief Financial Officer shall certify and provide a certificate which shall provide the monthly EBITDA from September 2006 until July 2007.

8.25 Maximum Capital Expenditures

Canadian Borrower shall ensure that SMTC Corporation and its Subsidiaries do not, directly or indirectly, make or commit to make, whether through purchase, capital leases or otherwise, Capital Expenditures in an aggregate amount in excess of the amounts set forth below calculated on a fiscal year basis at the end of each fiscal year in accordance with GAAP. Fifty (50%) percent of the unused portion of the Capital Expenditure amount set forth below may be carried over for expenditure in the next succeeding fiscal year, however any Capital Expenditure made pursuant to this sentence during any fiscal year shall be deemed made first in respect of amounts permitted for such fiscal year as provided below and second in respect of amounts carried over from the prior fiscal year.

End of Fiscal Year	Maximum Capital Expenditure for Fiscal Year
December 2007	US\$4,000,000
December 2008	US\$5,000,000
December 2009	US\$5,000,000
December 2010	US\$5,000,000
December 2011	US\$5,000,000
Thereafter	US\$5,000,000

For purposes of calculating the Maximum Capital Expenditures, the following amounts of Capital Expenditures shall be used in respect of the applicable fiscal quarter:

Fiscal Quarter Ending	Capital Expenditures
March 2007	US\$309,000
June 2007	US\$1,162,000

8.26 After Acquired Real Property

If Canadian Borrower hereafter acquires any Real Property, fixtures or any other property with a fair market value in an amount equal to or greater than US\$100,000 (or if a Default or Event of Default exists, then regardless of the fair market value of such assets), without limiting any other rights of Agent or Tranche B Agent, or duties or obligations of Canadian Borrower, promptly upon Agent's or Tranche B Agent's request, Canadian Borrower shall execute and deliver to Agent a mortgage, deed of trust or deed to secure debt, as Required Lenders may determine, in form and substance satisfactory to Required Lenders and in form appropriate for recording in the real estate records of the jurisdiction in which such Real Property or other property is located granting to Agent a first and only lien and mortgage on and security interest in such Real Property, fixtures or other property (except as Canadian Borrower would otherwise be permitted to incur hereunder) and such other agreements, documents and instruments as Required Lenders may require in connection therewith.

Section 9 Events of Default and Remedies

9.1 Events of Default

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

- (a) Canadian Borrower (i) fails to pay when due any of the Obligations or (ii) fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements and, with respect to the covenants in Sections 8.3, 8.6, 8.13, 8.14, 8.16, 8.18 and 8.26 of this Agreement, such failure continues for a period of three (3) Business Days after written notice thereof has been provided by Agent to the Canadian Borrower;

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- (b) any representation, warranty or statement of fact made by Canadian Borrower to Canadian Lenders, Tranche B Agent and/or Agent in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;
 - (c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favour of Canadian Lenders, Tranche B Agent and/or Agent and, except in relation to the payment of monetary obligations pursuant to any guarantee, endorsement or other agreement and the revocation or termination thereof by any such Obligor, and such failure continues for a period of three (3) Business Days after written notice thereof has been provided by Agent to such Obligor;
 - (d) any judgment for the payment of money is rendered against Canadian Borrower or any Obligor in excess of US\$100,000 in any one case or in excess of US\$250,000 in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Canadian Borrower or any Obligor or any of their assets;
 - (e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or Canadian Borrower or any Obligor, which is a partnership, limited liability company, limited partnership, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business;
 - (f) Canadian Borrower or any Obligor is not Solvent, makes an assignment for the benefit of creditors, proposes to make, makes or sends notice of a bulk sale or calls a meeting of its creditors or principal creditors;
 - (g) a petition, case or proceeding under the BIA or CCAA or any bankruptcy laws of Canada or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed or commenced against Canadian Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or Canadian Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;
 - (h) a petition, case or proceeding under the BIA or CCAA or any bankruptcy laws of Canada or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction

now or hereafter in effect (whether at a law or equity) is filed or commenced by Canadian Borrower or any Obligor for all or any part of its property including if Canadian Borrower or any Obligor shall:

- (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or of all or a substantial part of its property and assets;
 - (ii) be unable, or admit in writing its inability, to pay its debts as they mature, or commit any other act of bankruptcy;
 - (iii) make a general assignment for the benefit of creditors;
 - (iv) file a voluntary petition or assignment in bankruptcy or a proposal seeking a reorganization, compromise, moratorium or arrangement with its creditors;
 - (v) take advantage of any insolvency or other similar law pertaining to arrangements, moratoriums, compromises or reorganizations, or admit the material allegations of a petition or application filed in respect of it in any bankruptcy, reorganization or insolvency proceeding; or
 - (vi) take any corporate action for the purpose of effecting any of the foregoing;
- (i) any default by Canadian Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Canadian Lenders, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favour of any person other than Canadian Lenders, in any case in an amount in excess of US\$100,000, which default continues for more than the applicable cure period, if any, with respect thereto, or any default (other than a default of a non-material nature as determined by Agent, acting reasonably) by Canadian Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Canadian Lenders, which default continues for more than the applicable cure period, if any, with respect thereto;
 - (j) any change in Control of Canadian Borrower;
 - (k) the indictment or threatened indictment of Canadian Borrower or any Obligor under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings against Canadian Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of Canadian Borrower or such Obligor;
 - (l) any loss of a material customer, permit, franchise or licence where such loss would reasonably be expected to have a Material Adverse Effect;
 - (m) any damage to or destruction, theft or seizure of Collateral (other than Collateral subject to full replacement insurance subject to the first priority, valid and perfected Lien in favour of Agent) where such damage, destruction, theft or seizure would reasonably be expected to have a Material Adverse Effect;

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- (n) the unenforceability of, or inability to collect, an Account or Accounts in excess of US\$250,000 in any one case or US\$500,000 in the aggregate;
 - (o) any environmental or pension liability where such liability would reasonably be expected to have a Material Adverse Effect;
 - (p) any strike, labour dispute, walkout or stoppage which causes for more than fifteen (15) days the cessation or substantial curtailment of revenue producing acts of Canadian Borrower or any Obligor;
 - (q) there shall be an event of default (howsoever defined) under any of the other Financing Agreements or US Financing Agreements (other than an event of default arising solely from the occurrence of a Material Adverse Effect under and as defined in the US Loan Agreement);
 - (r) there shall be a material breach of or failure to comply with the provisions of any intercreditor agreement or subordination agreement with respect to Canadian Borrower or any Obligor by any party thereto other than Agent, Tranche B Agent or Canadian Lenders (or any affiliate thereof or any person that does not deal at arm's length therewith);
 - (s) a requirement from the Minister of National Revenue for payment pursuant to Section 224 or any successor section of the ITA or Section 317, or any successor section or any other Person in respect of Canadian Borrower of the *Excise Tax Act* (Canada) or any comparable provision of similar legislation shall have been received by Canadian Lenders, Tranche B Agent and/or Agent or any other Person in respect of Canadian Borrower or otherwise issued in respect of Canadian Borrower in an amount in excess of US\$50,000;
 - (t) any material provision hereof or of any of the other Financing Agreements shall for any reason cease to be valid, binding and enforceable with respect to any party hereto or thereto (other than Agent, Tranche B Agent and Canadian Lenders) in accordance with its terms, or any such party shall challenge the enforceability hereof or thereof, or shall assert in writing, or take any action or fail to take any action based on the assertion that any material provision hereof or of any of the other Financing Agreements has ceased to be or is otherwise not valid, binding or enforceable in accordance with its terms; or
 - (u) the failure by Canadian Borrower to make the Offer to Repay in accordance with Section 2.3(f).

9.2 Remedies

- (a) At any time an Event of Default exists or has occurred and is continuing, Canadian Lenders, Tranche B Agent and Agent shall have all rights and remedies provided to them in this Agreement and the other Financing Agreements, the

PPSA and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Canadian Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Canadian Lenders, Tranche B Agent and Agent hereunder, under any of the other Financing Agreements, the PPSA or other applicable law, are cumulative, not exclusive and enforceable, in Canadian Lender's, Tranche B Agent's or Agent's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Canadian Borrower of this Agreement or any of the other Financing Agreements. Canadian Lenders and Agent may, at any time or times, proceed directly against Canadian Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral.

- (b) Without limiting the foregoing and except as provided in paragraph (g) below, at any time an Event of Default exists or has occurred and is continuing, Agent may, in its discretion and without limitation, (i) accelerate the payment of all Obligations (other than Hedging Liabilities) and demand immediate payment thereof to Agent (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h), all Obligations (other than Hedging Liabilities) shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of Canadian Borrower, (iii) require Canadian Borrower, at Canadian Borrower's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent, (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Canadian Lenders, Tranche B Agent and/or Agent or elsewhere) at such prices or terms as Agent may determine, at its discretion, for cash, upon credit or for future delivery, with Canadian Lenders, Tranche B Agent and/or Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Canadian Borrower, which right or equity of redemption is hereby expressly waived and released by Canadian Borrower, (vii) borrow money and use the Collateral directly or indirectly in carrying on Canadian Borrower's business or as security for loans or advances for any such purposes, (viii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with Canadian Borrower, debtors of Canadian Borrower, sureties and others as Agent may see fit without prejudice to the liability of Canadian Borrower or Agent's right to hold and realize the security interest created under any Financing Agreement, and/or (ix) terminate this

Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, ten (10) days prior notice (or such longer notice as required by applicable law) by Agent to Canadian Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Canadian Borrower waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Canadian Borrower waives the posting of any bond which might otherwise be required. At any time an Event of Default exists or has occurred and is continuing, upon Agent's request, Canadian Borrower will furnish cash collateral to Agent for the Letter of Credit Accommodations. Such cash collateral shall be in the amount equal to one hundred and ten (110%) percent of the amount of the Letter of Credit Accommodations plus the amount of any fees and expenses payable in connection therewith through the end of the latest expiration date of such Letter of Credit Accommodations.

- (c) Agent shall apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as set out in Section 5.4, whether or not then due. Canadian Borrower shall remain liable to Agent, Tranche B Agent and Canadian Lenders for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of correction or enforcement including legal costs and expenses.
- (d) Without limiting the foregoing, upon the occurrence of a Default or an Event of Default, Agent, Tranche B Agent and Canadian Lenders, as applicable, may, at their option, without notice, (i) cease making Loans or arranging Letter of Credit Accommodations or reduce the lending formulas or amounts of Loans and Letter of Credit Accommodations available to Canadian Borrower and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Agent, Tranche B Agent and Canadian Lenders to Canadian Borrower.
- (e) Agent may appoint, remove and reappoint any person or persons, including an employee or agent of Canadian Lenders, Tranche B Agent and/or Agent to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of Canadian Borrower and not of Canadian Lenders, Tranche B Agent or Agent, and Canadian Lenders, Tranche B Agent and Agent shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Agent, all money received by such Receiver shall be received in trust for and paid to Agent to be applied in accordance with Section 5.4. Such Receiver shall have all of the powers and rights of Canadian Lenders, Tranche B Agent and/or Agent described in this Section 9.2. Agent may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.

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- (f) Canadian Borrower shall pay all costs, charges and expenses incurred by Canadian Lenders, Tranche B Agent and Agent or any Receiver or any nominee or agent of Canadian Lenders, Tranche B Agent or Agent, whether directly or for services rendered (including reasonable solicitor's costs on a solicitor and his own client basis, auditor's costs, other reasonable legal expenses and Receiver remuneration) in enforcing this Agreement or any other Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.
- (g) Notwithstanding anything to the contrary contained herein, except as Tranche B Agent shall otherwise agree, Agent shall demand payment of the Obligations and commence and pursue such other Enforcement Actions as Agent in good faith deems appropriate within ninety (90) days (as such period shall be extended by the number of days Agent is stayed from commencing and pursuing Enforcement Actions pursuant to any insolvency or bankruptcy proceeding including under the BIA or CCAA or any other similar proceeding in any jurisdiction or an order or stay of any court or governmental authority) after the date of the receipt by Agent of a Tranche B Loan Action Default Notice; provided, that:
- (i) subject to sub-paragraph (ii) through (viii) below and Section 9.2(j), Agent shall demand payment of the Obligations in respect of the Tranche B Loan and pursue such other Enforcement Actions as Tranche B Agent may reasonably specify against or relating to the Tranche B Loan Priority Collateral, including the Mexican Obligor Collateral, as Tranche B Agent in good faith deems appropriate under the circumstances within ten (10) days (as such period shall be extended by the number of days Agent is stayed from commencing and pursuing Enforcement Actions pursuant to any insolvency or bankruptcy proceeding including under the BIA or CCAA or any other similar proceeding in any jurisdiction or an order or stay of any court or governmental authority) after the date of the receipt of by Agent of the Tranche B Loan Action Default Notice specifying such action;
 - (ii) such Tranche B Loan Action Default has not been waived or cured;
 - (iii) in the good faith determination of Agent, taking an Enforcement Action is permitted under the terms of this Agreement and applicable law;
 - (iv) taking an Enforcement Action shall not result in any liability of Agent, Tranche B Agent or Canadian Lenders or their respective affiliates to Canadian Borrower or any other person;
 - (v) Agent shall be entitled to all of the benefits of Sections 12.2, 12.3 and 12.5 hereof;

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- (vi) Agent shall not be required to take an Enforcement Action within the ninety (90) day period provided above (or the ten (10) day period as is applicable in the case of a Tranche B Loan Action Default Notice specifying an Enforcement Action against or relating to the Tranche B Loan Priority Collateral) so long as Agent shall, at its option, either (A) appoint Tranche B Loan Agent, as an agent of Agent for purposes of exercising the rights of Agent to take an Enforcement Action or (B) resign as Agent and appoint Tranche B Agent as the new Agent, in each case, subject to the terms of this Agreement (other than the forty-five (45) day notice period in Section 12.12). Tranche B Agent, as the new Agent appointed by Agent pursuant to this Section 9.2(g)(vi), agrees to indemnify Agent (to the extent not reimbursed by Canadian Borrower hereunder and without limiting any obligations of Canadian Borrower hereunder) for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent to the extent caused by the gross negligence or willful misconduct of Tranche B Agent as the new Agent hereunder as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement; and
 - (vii) Agent shall not be required to continue any Enforcement Action so long as Agent shall, at its option, either (A) appoint Tranche B Agent, as an agent of Agent for purposes of exercising the rights of Agent to take an Enforcement Action or (B) resign as Agent and appoint Tranche B Agent as the new Agent, in each case, subject to the terms of this Agreement (other than the forty-five (45) day notice period in Section 12.12). Tranche B Agent, as the new Agent appointed by Agent pursuant to this Section 9.2(g)(vii), agrees to indemnify Agent (to the extent not reimbursed by Canadian Borrower hereunder and without limiting any obligations of Canadian Borrower hereunder) for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent to the extent caused by the gross negligence or willful misconduct of Tranche B Agent as the new Agent hereunder as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.
 - (h) Notwithstanding anything to the contrary contained herein but subject to the rights of Agent pursuant to Section 9.2(i) and except as Tranche B Agent shall otherwise agree, Agent shall not commence and pursue Enforcement Actions against the Tranche B Loan Priority Collateral for ninety (90) days from the date of the occurrence of an Event of Default.
 - (i) Rights of Access and Use.
 - (i) In the event that Tranche B Agent or Agent shall acquire control or possession of any of the Tranche B Loan Priority Collateral or shall,

through the exercise of remedies under this Agreement, sell any of the Tranche B Loan Priority Collateral to any third party (a “**Third Party Purchaser**”) Tranche B Agent shall permit Agent (or require as a condition of such sale to the Third Party Purchaser that the Third Party Purchaser agree to permit Agent), at its option and in accordance with applicable law:

- (A) to enter any or all of the Tranche B Loan Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of real property during normal business hours in order to inspect, remove or take any action with respect to the Revolving Loan Priority Collateral or to enforce Agent’s rights with respect thereto, including the examination and removal of Revolving Loan Priority Collateral and the examination and duplication of the books and records of any Obligor related to the Revolving Loan Priority Collateral or to otherwise handle, deliver, ship, transport, deal with or dispose of any Revolving Loan Priority Collateral, such right to include the right to conduct one or more public or private sales or auctions thereon; and
 - (B) use any of the Tranche B Loan Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of equipment (including computers or other data processing equipment related to the storage or processing of records, documents or files pertaining to the Revolving Loan Priority Collateral) to handle, deal with or dispose of any Revolving Loan Priority Collateral pursuant to the rights of Agent and Revolving Lenders as set forth in this Agreement, the personal property security statute of any applicable jurisdiction and other applicable law. Tranche B Agent or any Tranche B Lender shall not have any responsibility or liability for the acts or omissions of Agent or Revolving Lender, and Agent and Revolving Lender shall not have any responsibility or liability for the acts or omissions of Tranche B Agent or any Tranche B Lender, in each case arising in connection with such other’s use and/or occupancy of any of the Tranche B Loan Priority Collateral.
- (ii) The rights of Agent and Revolving Lender as set forth in Section 9.2(i)(i)(A) or (B) above as to the Tranche B Loan Priority Collateral shall be irrevocable and shall continue at Agent’s option for a period of one hundred twenty (120) days from the date that Tranche B Agent or Agent acquires possession or control of any of the Tranche B Loan Priority Collateral:
- (A) except, that such one hundred twenty (120) day period shall be reduced by the number of days, if any, that Agent has entered or used the Tranche B Loan Priority Collateral as described in Section 9.2(i)(i)(A) or (B) above, to the extent prior to the date that

Agent or Tranche B Agent has control or possession of such Tranche B Loan Priority Collateral, or has sold such Tranche B Loan Priority Collateral to a Third Party Purchaser; and

- (B) provided, that if Agent or Tranche B Agent has entered into an agreement for the sale of all or substantially all of the Tranche B Loan Priority Collateral consisting of equipment and real property in a *bona fide* arm's length transaction with an unaffiliated person, the rights of Agent set forth in Section 9.2(i)(i)(A) and (B) above shall only continue until the later of the date thirty (30) days after the date Agent enters into or receives written notice from Tranche B Agent of such agreement, together with a copy thereof, as duly authorized, executed and delivered by the parties thereto or the date that the proposed purchaser shall require as a condition of such sale that possession of the equipment and real property be given by Agent or Tranche B Agent to such purchaser. In connection with any such sale, Agent and Tranche B Agent shall use commercially reasonable efforts to cause such purchaser to not require as a condition of the sale that possession of the equipment and real property be given by Agent or Tranche B Agent to such purchaser prior to the end of the one hundred twenty (120) day period provided for above or if such period is not acceptable to the purchaser, then the longest period equal to or greater than the thirty (30) day period provided for above which may be acceptable (provided that such efforts by Agent and/or Tranche B Agent shall not be required if in the good faith determination of Tranche B Agent such efforts will result in an adverse change in the terms of the proposed sale or have a reasonable likelihood of causing the sale not to occur). The time periods set forth in this Section 9.2(i) shall be tolled during the pendency of any proceeding of Canadian Borrower or Obligor under the BIA or CCAA or other proceedings pursuant to which both Agent and Tranche B Agent are effectively stayed from enforcing their rights against the Collateral. In no event shall Tranche B Agent take any action to interfere, limit or restrict the rights of Agent or Revolving Lender or the exercise of such rights by Agent or Revolving Lender to have access to or to use any of such Tranche B Loan Priority Collateral under such possession or control pursuant to Section 9.2(i) prior to the expiration of such periods.
- (j) Non-Exclusive License to Use Intellectual Property. In addition to and not in limitation of the provisions of Section 9.2(i) above for the purpose of enabling Agent and Revolving Lender to exercise rights and remedies at such time as Agent shall be lawfully entitled to exercise such rights and remedies, (a) subject to the time periods set forth in Section 9.2(i) and the provisions of Section 9.2(i), Tranche B Agent, on behalf of Tranche B Lenders, hereby gives its written consent (given without any representation, warranty or obligation whatsoever) to any grant by Canadian Borrower and Obligors to Agent and Revolving Lender of

a non-exclusive royalty-free license to use any Intellectual Property that is deemed necessary by Agent and Revolving Lender to sell, lease or otherwise dispose of or realize upon any Revolving Loan Priority Collateral, and (b) to the extent that Tranche B Agent has become the owner of any Intellectual Property of Canadian Borrower or Obligor through the exercise of remedies and to the extent permitted by the terms of such Intellectual Property, Tranche B Agent, on behalf of Tranche B Lenders, hereby grants to Agent, for itself and the benefit of Revolving Lender, an irrevocable, non-exclusive royalty-free license (given without any representation, warranty or obligation whatsoever) to use any such Intellectual Property that is necessary to sell, lease or otherwise dispose of or realize upon any Revolving Loan Priority Collateral. The license granted under this Section 9.2(j) shall continue for the period of one hundred twenty (120) days from the date Tranche B Agent becomes the owner of the Intellectual Property (the “**Initial License Period**”). Thereafter, such Initial License Period shall be continue uninterrupted so long as Tranche B Agent continues to own the Intellectual Property. If, at any time, Tranche B Agent sells or transfers the Intellectual Property, the license shall continue for the Initial License Period; except that with respect to any inventory owned and in transit to Canadian Borrower prior to the commencement of the Initial License Period, which in-transit inventory is received by Canadian Borrower and included in the Borrowing Base during the Initial License Period, then, with respect to such inventory, the Initial License Period shall be extended for a period of sixty (60) days.

- (k) Duties of Agent in Possession. Agent and Revolving Lender hereby acknowledge that, during the period any Tranche B Loan Priority Collateral shall be under control or possession of Tranche B Agent, Tranche B Agent shall not be obligated to take any action to protect or to procure insurance with respect to any Revolving Loan Priority Collateral that may be located on or in the Tranche B Loan Priority Collateral, it being understood that the Tranche B Agent shall have no responsibility for loss or damage to the Revolving Loan Priority Collateral (other than as a result of the gross negligence or willful misconduct of the Tranche B Agent, Tranche B Lenders or their agents, as determined by a final non-appealable judgment of a court of competent jurisdiction) and that all risk of loss or damage to the Revolving Loan Priority Collateral shall remain with Agent and Revolving Lender; provided that to the extent insurance obtained by Tranche B Agent provides coverage for risks relating to access to or use of the Revolving Loan Priority Collateral, Agent will be made an additional named insured thereunder.
- (l) Payments by Agent. During the actual occupation and control by Agent, its agents or representatives, of the real property constituting Tranche B Loan Priority Collateral during the access and use period permitted by Section 9.2(i) above, Agent shall be (a) obligated to pay to Tranche B Agent all utilities, taxes and all other maintenance and operating costs of such real property during any such period of actual occupation and control by Agent, (b) obligated to maintain insurance for such real property, substantially similar to the insurance maintained by Canadian Borrower or any Obligor on such real property, naming Tranche B

Agent as mortgagee, loss payee and additional insured, if such insurance is not otherwise in effect and (c) obligated to repair at its expense any physical damage to such real property resulting from any act or omission of Agent or its agents or representatives pursuant to such access, occupancy, use or control of such equipment or real property, and to leave the premises in a condition substantially similar to the condition of such premises prior to the date of the commencement of the use thereof by Agent.

- (m) Indemnification by Agent and Revolving Lender. Agent and Revolving Lender shall indemnify and hold harmless Tranche B Agent and any Third Party Purchaser from and against (a) any loss, liability, claim, damage or expense (including fees and expenses of legal counsel) arising out of any claim asserted by any third party as a result of any acts or omissions by Agent, or any of its agents or representatives, in connection with the exercise by Agent of the rights of access set forth in Sections 9.2(i) above; except that, Agent and Revolving Lenders shall not have any obligation under this Section 9.2(m) to indemnify Tranche B Agent or any Third Party Purchaser with respect to a matter covered hereby resulting from the gross negligence or willful misconduct of Tranche B Agent or any Third Party Purchaser as determined pursuant to a final, non-appealable judgment of a court of competent jurisdiction, (b) any damage to any Tranche B Loan Priority Collateral (including any damage to real property constituting Tranche B Loan Priority Collateral) caused by any act of Agent or its agents or representatives, and (c) any injury resulting from any release of hazardous materials on such real property or arising in connection with the investigation, removal, clean-up and/or remediation of any hazardous material at such real property caused by the access, occupancy, use or control of such real property by Agent, or any of its agents or representatives. In no event shall Agent or Revolving Lender have any liability to Tranche B Agent or any Third Party Purchaser pursuant to this Section 9.2(m) or otherwise as a result of any condition on or with respect to the Tranche B Loan Priority Collateral existing prior to the date of the exercise by Agent of its rights under Section 9.2(i) (except to the extent of any injury to any person on the real property constituting Tranche B Loan Priority Collateral or damage to any Tranche B Loan Priority Collateral as a result of such condition that would not have occurred but for the exercise by Agent of its rights of access set forth in Section 9.2(i) above) and Agent or Revolving Lender shall have no duty or liability to maintain the Tranche B Loan Priority Collateral in a condition or manner better than that in which it was maintained prior to the access and/or use thereof by Agent or Revolving Lender.

Section 10 Jury Trial Waiver; Other Waivers And Consents; Governing Law

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

- (a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein without giving effect to principles of conflicts of laws, but

excluding any rule of law that would cause the application of the law of any jurisdiction other than the laws of the Province of Ontario and the federal laws of Canada applicable therein, except to the extent that the law of another jurisdiction is specified in a Financing Agreement (including the Mexican Security Documents) to be the governing law for that Financing Agreement.

- (b) Canadian Borrower, Agent, Tranche B Agent and Canadian Lenders irrevocably consent and submit to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements (other than the Mexican Security Documents) or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements (other than the Mexican Security Documents) or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Canadian Lenders, Tranche B Agent and/or Agent shall have the right to bring any action or proceeding against Canadian Borrower or its property in the courts of any other jurisdiction which Canadian Lenders, Tranche B Agent or Agent deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce their respective rights against Canadian Borrower or its property).
- (c) To the extent permitted by law, Canadian Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon Canadian Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Canadian Borrower shall appear in answer to such process, failing which Canadian Borrower shall be deemed in default and judgment may be entered by Agent against Canadian Borrower for the amount of the claim and other relief requested.
- (d) CANADIAN BORROWER, AGENT, TRANCHE B AGENT AND CANADIAN LENDERS EACH HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. CANADIAN BORROWER, AGENT, TRANCHE B AGENT AND CANADIAN LENDERS EACH HEREBY AGREES AND CONSENTS

THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT CANADIAN BORROWER, AGENT, TRANCHE B AGENT OR CANADIAN LENDERS MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

- (e) Canadian Lenders, Tranche B Agent and/or Agent shall not have any liability to Canadian Borrower (whether in tort, contract, equity or otherwise) for losses suffered by Canadian Borrower in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement or any other Financing Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Canadian Lenders, Tranche B Agent and/or Agent that the losses were the result of acts or omissions constituting gross negligence or willful misconduct.
- (f) Canadian Borrower hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Agent or Tranche B Agent from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Subject to applicable law, Canadian Borrower waives the posting of any bond otherwise required of Agent or Tranche B Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Agent or Tranche B Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, this Agreement or any other Financing Agreement.
- (g) Canadian Borrower: (i) certifies that neither Agent, Tranche B Agent or Canadian Lenders nor any representative, agent or attorney acting for or on behalf of Agent, Tranche B Agent or Canadian Lenders has represented, expressly or otherwise, that Agent, Tranche B Agent and Canadian Lenders would not, in the event of litigation, seek to enforce any of the waivers provided for in this Agreement or any of the other Financing Agreements and (ii) acknowledges that in entering into this Agreement and the other Financing Agreements, Agent, Tranche B Agent and Canadian Lenders are relying upon, among other things, the waivers and certifications set forth in this Section 10.1 and elsewhere herein and therein.

10.2 Waiver of Notices

Canadian Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on

Canadian Borrower which Agent may elect to give or shall give at the direction of Required Lenders shall entitle Canadian Borrower to any other or further notice or demand in the same, similar or other circumstances.

10.3 Amendments and Waivers

- (a) Subject to the second sentence of this Section 10.3(a) and 10.3(c), neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by Required Lenders, and as to amendments and modifications (other than with respect to any provision of Section 12), as also signed by an authorized officer of Canadian Borrower. No amendment, modification, waiver or discharge shall, unless in writing and signed by each Canadian Lender directly affected thereby:
- (i) increase the principal amount of a Canadian Lender's Loans or commitments (which action shall be deemed to affect those Canadian Lenders whose Loans or commitments are increased);
 - (ii) reduce the principal of, rate of interest on or fees payable with respect to a Canadian Lender's Obligations;
 - (iii) extend any scheduled payment date or final maturity date of the principal amount of any Obligations of a Canadian Lender;
 - (iv) waive, forgive, defer, extend or postpone any payment of interest or fees of a Canadian Lender;
 - (v) release or permit Canadian Borrower or any Obligor to sell or otherwise dispose of all the Collateral (which action shall be deemed to directly affect all Canadian Lenders); and
 - (vi) amend or waive this second sentence of Section 10.3(a).
- (b) Agent, Tranche B Agent and Canadian Lenders shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its or their rights, powers and/or remedies unless such waiver shall be in writing and signed as provided herein. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent, Tranche B Agent or any Canadian Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent, Tranche B Agent or any Canadian Lender would otherwise have on any future occasion, whether similar in kind or otherwise.
- (c) The consent of Agent or Tranche B Agent, as applicable, shall be required for any amendment, waiver or consent affecting the rights or duties of Agent or Tranche B Agent hereunder or under any of the other Financing Agreements, in addition to the consent of Required Lenders otherwise required by this Section 10.3 and the exercise by Agent of any of its rights hereunder with respect to Availability Reserves or Eligible Accounts or Eligible Inventory shall not be deemed an amendment to the advance rates provided for in this Section 10.3.

10.4 Waiver of Counterclaim

Canadian Borrower waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

10.5 Indemnification

Canadian Borrower shall jointly and severally indemnify and hold Canadian Lenders, Tranche B Agent and Agent, and their respective directors, agents, employees and counsel (each, an “**Indemnified Person**”), harmless from and against any and all losses, claims, damages, liabilities, costs or expenses (including attorneys’ fees and expenses) imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel; provided, however, that Canadian Borrower shall not be liable for any indemnification to an Indemnified Person to the extent such losses, claims, damages, liabilities, costs or expenses results from that Indemnified Person’s gross negligence or willful misconduct as determined by a final and non-appealable judgment or court order binding on such Indemnified Person (but without limiting the obligations of Canadian Borrower as to any other Indemnified Person). To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Canadian Borrower shall pay the maximum portion which it is permitted to pay under applicable law to the Indemnified Persons in satisfaction of indemnified matters under this Section. To the extent permitted by applicable law, Canadian Borrower shall not assert, and Canadian Borrower hereby waive, any claim against any Indemnified Person, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any of the other Financing Agreements or any undertaking or transaction contemplated hereby. All amounts due under this Section shall be payable upon demand. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

Section 11 Term Of Agreement; Miscellaneous

11.1 Term

- (a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the Maturity Date. Upon the Maturity Date or any other effective date of termination of the Financing Agreements following an Event of Default, Canadian Borrower shall pay to Agent, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Agent in such amounts as Agent

determines is necessary to secure Canadian Lenders, Tranche B Agent and Agent from loss, cost, damage or expense, including legal fees and expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Canadian Lenders, Tranche B Agent and/or Agent has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in US Dollars to such bank account of Agent, as Agent may, in its discretion, designate in writing to Canadian Borrower for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Canadian Borrower to the bank account designated by Agent are received in such bank account later than 12:00 noon, Toronto time.

- (b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Canadian Borrower of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Agent's continuing Lien in the Collateral and the rights and remedies of Canadian Lenders, Tranche B Agent and/or Agent hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid. Accordingly, Canadian Borrower waives any rights it may have under the PPSA to demand the filing of termination statements with respect to the Collateral and Agent shall not be required to send such termination statements to Canadian Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid and satisfied in full in immediately available funds.

11.2 Notices

All notices, requests and demands hereunder shall be in writing and (a) made to Canadian Lenders, Tranche B Agent and Agent at their respective addresses set forth below and to Canadian Borrower at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by facsimile transmission or electronic transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by registered mail, return receipt requested, five (5) days after mailing.

11.3 Partial Invalidity

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

11.4 Successors and Assignment

- (a) This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns, except that Canadian Borrower may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Agent, Tranche B Agent and Canadian Lenders.
- (b) Revolving Lender may sell, assign, sub-participate or otherwise transfer its rights under this Agreement and the other Financing Agreements to any Person and such Person shall have, to the extent of such sale, assignment, sub-participation and transfer, the same rights and benefits as it would have if it were Revolving Lender hereunder except as provided by the terms of such sale, assignment, sub-participation and transfer; provided that (i) Revolving Lender shall not sell, assign, sub-participate or otherwise transfer such rights without the prior written consent of Agent and Tranche B Agent (which consent may not be unreasonably withheld or delayed and which consent shall not be required in connection with any sale, assignment, sub-participation or transfer to an affiliate of Revolving Lender) and (ii) prior notice thereof is provided to Canadian Borrower (except with respect to sub-participations).
- (c) Each Tranche B Lender may sell, assign, sub-participate or otherwise transfer its rights under this Agreement and the other Financing Agreements to any Person and such Person shall have, to the extent of such sale, assignment, sub-participation and transfer the same rights and benefits as it would have if it were a Tranche B Lender hereunder except as provided by the terms of such sale, assignment, sub-participation or transfer; provided, however, that, (i) a Tranche B Lenders shall not sell or assign such rights without the prior written consent of Agent (which consent may not be unreasonably withheld or delayed and which consent shall not be required in connection with any sale, assignment, sub-participation or transfer to an affiliate of such Tranche B Lender or an Approved Fund) and (ii) prior notice thereof is provided to Canadian Borrower (except with respect to sales, assignments or transfers to affiliates of Tranche B Lender or an Approved Fund or sub-participations provided that (1) Canadian Borrower may continue to deal solely and directly with such Tranche B Lender until such notice has been delivered to Canadian Borrower and (2) the failure of such Tranche B Lender to notify Canadian Borrower of such sale, assignment, sub-participation or transfer shall not affect the legality, validity or binding effect of such sale, assignment, sub-participation or transfer which shall be effective on the date such sale, assignment, sub-participation or transfer is recorded in the Register).
- (d) Any Canadian Lender may pledge or grant a security interest in its rights under this Agreement and the Other Financing Agreements to any Person; provided, however, that such pledge or grant of security interest shall not (A) release such Canadian Lender from any of its obligations hereunder or (B) substitute any such pledgee or grantee for such Canadian Lender as a party hereto unless such Canadian Lender complies with Sections 11.4(b) and 11.4(c) above, as applicable.

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- (e) Agent shall, on behalf of and acting solely for this purpose as the non-fiduciary agent of Canadian Borrower, maintain a register of the names and addresses of Canadian Lenders and the principal amount (and stated interest thereon) of their respective Loans or commitments (the “**Register**”) and Canadian Lenders shall advise Agent accordingly so that Agent can maintain an updated and current Register. In the case of an assignment by a Canadian Lender to any Approved Funds or affiliate (a “**Related Party Assignment**”) the assigning Canadian Lender shall maintain a comparable register on behalf of, and acting solely for this purpose as a non-fiduciary agent of, Canadian Borrower (the “**Related Party Register**”). The entries in the Register (or, in the case of a Related Party Assignment, the Related Party Register) shall be conclusive and binding for all purposes, absent manifest error, and Canadian Borrower, Obligors, Agent, Tranche B Agent and Canadian Lenders may treat each Person whose name is recorded in the Register (and any Canadian Lender that makes a Related Party Assignment shall treat each Person whose name is recorded in the Related Party Register) as a Canadian Lender hereunder for all purposes of this Agreement. The Register and Related Party Register shall be available for inspection by Canadian Borrower and any Canadian Lender at any reasonable time and from time to time upon reasonable prior notice.
- (f) An obligation under this Agreement or any other Financing Agreement may be assigned or sold in whole or in part only by registration of such assignment or sale on the Register or Related Party Register. Any assignment or sale of all or part of such Obligations may be effected only by registration of such assignment or sale on the Register (or Related Party Register). Prior to the registration of assignment or sale of any Obligations, Agent and Canadian Borrower shall treat the Person in whose name such Loan is registered as the owner thereof for the purpose of receiving all payments thereon and for all other purposes, notwithstanding notice to the contrary. In the event that any Canadian Lender sells participations in an Obligation, the selling Canadian Lender shall maintain a register on which it enters the name of all participants in the Obligation (the “**Participant Register**”) and the principal amount (and stated interest thereon) of the portion of the Obligation which is the subject of the participation. An Obligation may be participated in whole or in part only by registration of such participation on the Participant Register. Any participation of such Obligation may be effected only by the registration of such participation on the Participant Register.
- (g) Subject to Section 11.14, Canadian Borrower agrees that each participant shall be entitled to the benefits of Section 2.5 of this Agreement with respect to its participation in any portion of the Loans.
- (h) Canadian Borrower hereby acknowledges that any Tranche B Lender and each of its affiliates and Approved Funds may sell or securitize its share of the Tranche B Loan (a “**Securitization**”) through the pledge of such share as collateral security for loans to such Tranche B Lender or its Affiliates or Approved Funds or through

the sale of such share or the issuance of direct or indirect interests in such share, which loans to such Tranche B Lender or its affiliates or Approved Funds or direct or indirect interests will be rated by Moody's, S&P or one or more other rating agencies (the "**Rating Agencies**"). Canadian Borrower agree to cooperate with such Tranche B Lender and its affiliates and Approved Funds to effect the Securitization including by (a) amending this Agreement and the other Financing Agreements and executing such additional documents, as reasonably requested by such Tranche B Lender in connection with the Securitization, provided that (i) any such amendment or additional documentation does not impose material additional costs on Canadian Borrower, and (ii) any such additional documentation does not materially adversely affect the rights, or increase the obligations, of Canadian Borrower under the Financing Agreements or change or affect in a manner adverse to Canadian Borrower the financial terms of the Tranche B Loan, (b) providing such information as may be reasonably requested by such Tranche B Lender in connection with the rating of the Tranche B Loan or the Securitization, and (c) providing in connection with any rating of the Tranche B Loan a certificate (i) agreeing to indemnify such Tranche B Lender and any of its affiliates and Approved Funds, any of the Rating Agencies, or any party providing credit support or otherwise participating in the Securitization (collectively, the "**Securitization Parties**") for any losses, claims, damages or liabilities (the "**Securitization Liabilities**") to which such Tranche B Lender or any of its affiliates or Approved Funds, or such Securitization Parties, may become subject insofar as the Securitization Liabilities arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Financing Agreement or in any writing delivered by or on behalf of Canadian Borrower to such Tranche B Lender or Tranche B Agent in connection with any Financing Agreement or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and such indemnity shall survive any transfer by such Tranche B Lender or its successors or assigns of its share of the Tranche B Loan, and (ii) agreeing to reimburse such Tranche B Lender and its Affiliates and Approved Funds, and such Securitization Parties, for any legal or other expenses reasonably incurred by such Persons in connection with defending the Securitization Liabilities.

11.5 Entire Agreement

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

11.6 Headings

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

11.7 Judgment Currency

To the extent permitted by applicable law, the obligations of Canadian Borrower in respect of any amount due under this Agreement shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Canadian Borrower shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Canadian Borrower not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

11.8 Interpretative Provisions

- (a) All terms used herein which are defined in the PPSA shall have the meanings given therein unless otherwise defined in this Agreement.
- (b) All financial computations hereunder shall be computed unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the financial statements of SMTC Corporation most recently received by Agent and Tranche B Agent prior to the Closing Date. Notwithstanding anything to the contrary contained in GAAP or any interpretations or other pronouncements by the Financial Accounting Standards Board or otherwise, the term “unqualified opinion” as used herein to refer to opinions or reports provided by accountants shall mean an opinion or report that is not only unqualified but also does not include any explanation, supplemental comment or other comment concerning the ability of the applicable person to continue as a going concern or the scope of the audit.
- (c) Unless otherwise expressly provided herein, (i) references herein to any agreement, document or instrument shall be deemed to include all subsequent amendments, modifications, supplements, extensions, renewals, restatements or replacements with respect thereto, but only to the extent the same are not prohibited by the terms hereof or of any other Financing Agreement, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, recodifying, supplementing or interpreting the statute or regulation.

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- (d) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.
 - (e) This Agreement and other Financing Agreements may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.
 - (f) This Agreement and the other Financing Agreements are the result of negotiations among and have been reviewed by counsel to all parties, and are the products of all parties. Accordingly, this Agreement and the other Financing Agreements shall not be construed against Agent, Tranche B Agent or Canadian Lenders merely because of Agent's, Tranche B Agent's or Canadian Lenders' involvement in their preparation.

11.9 Counterparts

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

11.10 Tranche B Lenders Purchase Option

- (a) **Notice of Exercise.** Upon the occurrence and during the continuance of a Priority Event, Tranche B Lenders shall have the option at any time upon five (5) Business Days' prior written notice to Agent and Revolving Lender to purchase on a *pro rata* basis all of the Obligations (other than those already owing to Tranche Lenders) from Revolving Lender. Such Tranche B Lender represents and warrants to the Agent and the Revolving Lender that no approval of any court or other regulatory or governmental authority is required for a sale pursuant to this Section. Such notice shall be irrevocable.
- (b) **Purchase and Sale.** On the date specified by Tranche B Lenders in such notice in Section 11.10(a) (which shall not be less than five (5) Business Days, nor more than twenty (20) days, after the receipt by Agent of the notice from Tranche B Lenders of its election to exercise such option), Revolving Lender shall sell to Tranche B Lenders, and Tranche B Lenders shall purchase on a *pro rata* basis from Revolving Lender, all of the Obligations (other than those already owing to Tranche B Lenders); provided that, Revolving Lender, shall retain all rights to be indemnified or held harmless by Canadian Borrower and Obligors in accordance with the terms hereof and the other Financing Agreements.
- (c) **Payment of Purchase Price.** Upon the date of such purchase and sale, Tranche B Lenders shall:
 - (i) pay to Revolving Lender as the purchase price therefor the full amount of all the Obligations (other than those already owing to Tranche B Lenders) then outstanding and unpaid (including principal, interest, fees and expenses, including reasonable attorneys' fees and legal expenses related thereto);

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- (ii) furnish cash collateral to Agent and Revolving Lender in a manner and in such amounts as each determines is reasonably necessary to secure them in connection with any issued and outstanding Letter of Credit Accommodations (but not in any event in an amount greater than one hundred ten (110%) percent of the aggregate undrawn face amount of such Letter of Credit Accommodations);
 - (iii) agree to reimburse Agent and Revolving Lender for any loss, cost, damage or expense (including reasonable attorneys' fees and legal expenses) in connection with any checks or other payments provisionally credited to the Obligations (other than those already owing to Tranche B Lenders), and/or as to which Agent and Revolving Lender has not yet received final payment and for any other amounts which Agent and Revolving Lender may be required to pay to any bank or other financial institution that is a party to a Deposit Account Control Agreement (and, in each case, all of such payments shall be made without offset, deduction or defense);
 - (iv) agree to reimburse Agent and Revolving Lender in respect of indemnification obligations of Canadian Borrower and Obligors under this Agreement and the other Financing Agreements as to matters or circumstances known to Tranche B Agent or Tranche B Lenders at the time of the purchase and sale which would reasonably be expected to result in any loss, cost, damage or expense (including reasonable legal fees and expenses) to Agent or Revolving Lender, provided that in no event will Tranche B Lenders have any liability for such amounts in excess of proceeds of Collateral received by Tranche B Lenders;
 - (v) agree to indemnify and hold harmless Agent and Revolving Lender from and against any loss, liability, claim, damage or expense (including reasonable fees and expenses of legal counsel) arising out of any claim asserted by a third party as a direct result of any acts by Tranche B Lender or Tranche B Agent occurring after the date of such purchase ; and
 - (vi) such purchase price and cash collateral shall be remitted by wire transfer in federal funds to such bank account of Agent and Revolving Lender as each may designate in writing to Tranche B Agent for such purpose. Interest shall be calculated to but excluding the Business Day on which such purchase and sale shall occur if the amounts so paid by Tranche B Lenders to the bank accounts designated are received in such bank accounts prior to 1:00 p.m. (Toronto time) and interest shall be calculated to and including such Business Day if the amounts so paid by Tranche B Lenders to the bank accounts designated are received in such bank accounts later than 1:00 p.m.(Toronto time).

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- (d) **Limitation on Representations and Warranties.** Such purchase and sale shall be expressly made without representation or warranty of any kind by Agent or Revolving Lender or their respective affiliates as to the Obligations owing to any of them or otherwise and without recourse to Agent or Revolving Lender or their respective affiliates, except that Revolving Lender shall represent and warrant: (i) the amount of its portion of the Obligations being purchased, (ii) that it owns its portion of the Obligations free and clear of any Liens and (iii) it has the right to assign such Obligations and the assignment is duly authorized.
- (e) **Notice of Exercise of Remedies.** Agent agrees that it will give Tranche B Agent five (5) Business Days' prior written notice of its intention to commence the exercise of any enforcement right or remedy against the Collateral and/or to accelerate all or any material portion of the Obligations, except that such period of prior written notice may be less (but in any event concurrently with exercise thereof) as to any portion of the Collateral to the extent that in the good faith determination of Agent there are events or circumstances that imminently threaten the value of such Collateral or the ability of Agent to exercise its rights with respect to such Collateral, including the removal, diversion, concealment, abscondment, destruction or waste thereof. In the event that during such five (5) Business Day period (or such lesser period as provided above), Tranche B Lenders shall send to Revolving Lender and Agent the irrevocable notice of Tranche B Lenders' intention to exercise the purchase option given under this Section 11.10, Agent shall not commence any foreclosure or other action to sell or otherwise realize upon the Collateral or accelerate all or any material portion of the Obligations (provided that continuing collection of accounts receivable and other actions permitted under this Agreement and other Financing Agreements shall not be prohibited hereunder); provided that the purchase and sale with respect to the Obligations provided for herein shall have closed within five (5) Business Days thereafter and Agent and Revolving Lender shall have received payment in full of the Obligations as provided for herein within such five (5) Business Day period.

11.11 Revolving Lender Purchase Option

- (a) **Notice of Exercise.** Upon the occurrence and during the continuance of a Priority Event, Revolving Lender shall have the option at any time upon five (5) Business Days' prior written notice to Tranche B Agent and Tranche B Lenders to purchase all of the Obligations (other than those already owing to Revolving Lender) from Tranche B Lenders. Such Revolving Lender represents and warrants to the Tranche B Agent and the Tranche B Lender that no approval of any court or other regulatory or governmental authority is required for a sale pursuant to this Section. Such notice shall be irrevocable.
- (b) **Purchase and Sale.** On the date specified by Revolving Lender in such notice in Section 11.11(a) (which shall not be less than five (5) Business Days, nor more

than twenty (20) days, after the receipt by Tranche B Agent of the notice from Revolving Lender of its election to exercise such option), Tranche B Lenders shall sell to Revolving Lender, and Revolving Lender shall purchase from Tranche B Lenders, all of the Obligations (other than those already owing to Revolving Lender); provided that, Tranche B Lenders shall retain all rights to be indemnified or held harmless by Canadian Borrower and Obligors in accordance with the terms hereof and the other Financing Agreements.

- (c) **Payment of Purchase Price.** Upon the date of such purchase and sale, Revolving Lender shall:
- (i) pay to Tranche B Lenders as the purchase price therefor the full amount of all the Obligations (other than those already owing to Revolving Lender) then outstanding and unpaid (including principal, interest, fees and expenses, including reasonable attorneys' fees and legal expenses related thereto);
 - (ii) agree to reimburse Tranche B Agent and Tranche B Lenders in respect of indemnification obligations of Canadian Borrower and Obligors under this Agreement and the other Financing Agreements as to matters or circumstances known to Agent or Revolving Lenders at the time of the purchase and sale which would reasonably be expected to result in any loss, cost, damage or expense (including reasonable legal fees and expenses) to Tranche B Agent or Tranche B Lenders, provided that in no event will Revolving Lenders have any liability for such amounts in excess of proceeds of Collateral received by Revolving Lenders;
 - (iii) agree to indemnify and hold harmless Tranche B Agent and Tranche B Lenders from and against any loss, liability, claim, damage or expense (including reasonable fees and expenses of legal counsel) arising out of any claim asserted by a third party as a direct result of any acts by Revolving Lender or Agent occurring after the date of such purchase; and
 - (iv) such purchase price shall be remitted by wire transfer in federal funds to such bank account of Tranche B Agent and Tranche B Lenders as each may designate in writing to Agent for such purpose. Interest shall be calculated to but excluding the Business Day on which such purchase and sale shall occur if the amounts so paid by Revolving Lender to the bank accounts designated are received in such bank accounts prior to 1:00 p.m. (Toronto time) and interest shall be calculated to and including such Business Day if the amounts so paid by Revolving Lender to the bank accounts designated are received in such bank accounts later than 1:00 p.m.(Toronto time).
- (d) **Limitation on Representations and Warranties.** Such purchase and sale shall be expressly made without representation or warranty of any kind by Tranche B Agent or Tranche B Lenders or their respective affiliates as to the Obligations owing to any of them or otherwise and without recourse to Tranche B Agent or

Tranche B Lenders or their respective affiliates, except that each Tranche B Lender shall represent and warrant: (i) the amount of its portion of the Obligations being purchased, (ii) that it owns its portion of the Obligations free and clear of any Liens and (iii) it has the right to assign such Obligations and the assignment is duly authorized.

11.12 Competing Purchase Options

The first party to provide the other with the irrevocable notice in Section 11.10(a) and 11.11(a) shall have the right to exercise the applicable purchase options set forth in Section 11.10 and 11.12.

11.13 US Obligation Purchase Requirement

Tranche B Lenders and Revolving Lender agree that if Tranche B Lenders or Revolving Lender exercise their purchase option as set forth in Section 11, then the exercising party shall be required to also exercise their similar purchase option under the US Loan Agreement.

11.14 Limitation on Gross Up for Withholding Tax

Notwithstanding anything to the contrary in this Agreement, where any Tranche B Lender or any Revolving Lender has sold, assigned, sub-participated or otherwise transferred its rights under this Agreement (including under Section 11.4, 11.10 and 11.11) and the other Financing Agreements to another Person, such other Person shall be entitled to the benefits of Section 2.5, but only to the extent that:

- (i) such benefits would have been available to the original Tranche B Lender or Revolving Lender, as applicable, at the time of such transfer; or
- (ii) such entitlement to the benefits arises or results from a Change in Law occurring after the date such Person acquired its rights under this Agreement.

provided that the restrictions in paragraphs (i) and (ii) above shall not apply and assignees, participants and transferees shall be entitled to the full benefits of Section 2.5 in respect of any sale, assignment, sub-participation or other transfer occurring at any time that an Event of Default exists or has occurred and is continuing.

Section 12 THE AGENT AND THE TRANCHE B AGENT

12.1 Appointment, Powers and Immunities

Each Canadian Lender irrevocably designates, appoints and authorizes Wachovia to act as Agent hereunder and under the other Financing Agreements with such powers as are specifically delegated to Agent by the terms of this Agreement and of the other Financing Agreements, together with such other powers as are reasonably incidental thereto. Each Tranche B Lender irrevocably designates, appoints and authorizes Monroe to act as Tranche B Agent hereunder and under the other Financing Agreements with such powers as are specifically

delegated to Tranche B Agent by the terms of this Agreement and of the other Financing Agreements, together with such other powers as are reasonably incidental thereto. Each of Agent and Tranche B Agent (a) shall have no duties or responsibilities except those expressly set forth in this Agreement and in the other Financing Agreements, and shall not by reason of this Agreement or any other Financing Agreement be a trustee or fiduciary for any Canadian Lender; (b) shall not be responsible to Canadian Lenders for any recitals, statements, representations or warranties contained in this Agreement or in any of the other Financing Agreements, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement or any other Financing Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Financing Agreement or any other document referred to or provided for herein or therein or for any failure by Canadian Borrower or any Obligor or any other Person to perform any of its obligations hereunder or thereunder; and (c) shall not be responsible to Canadian Lenders for any action taken or omitted to be taken by it hereunder or under any other Financing Agreement or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. Each of Agent and Tranche B Agent may employ agents and attorneys-in-fact and delegate its obligations hereunder to such agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. Each of Agent and Tranche B Agent may deem and treat the payee of any note as the holder thereof for all purposes hereof unless and until the assignment thereof pursuant to an agreement (if and to the extent permitted herein) in form and substance satisfactory to it shall have been delivered to and acknowledged by it.

12.2 Reliance By Agent and Tranche B Agent

Each of Agent and Tranche B Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telecopy, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by it. As to any matters not expressly provided for by this Agreement or any other Financing Agreement, Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by Required Lenders, and such instructions of Required Lenders and any action taken or failure to act pursuant thereto shall be binding on all Canadian Lenders. As to any matters not expressly provided for by this Agreement or any other Financing Agreement, Tranche B Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by Required Tranche B Lenders, and such instructions of Required Tranche B Lenders and any action taken or failure to act pursuant thereto shall be binding on all Tranche B Lenders.

12.3 Events of Default

- (a) Each of Agent and Tranche B Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or an Event of Default or other failure of a condition precedent to the Loans and Letter of Credit Accommodations hereunder, unless and until it has received written notice from a Lender, or Canadian Borrower specifying such Default or Event of Default or any unfulfilled

condition precedent, and stating that such notice is a “Notice of Default or Failure of Condition”. In the event that Agent or Tranche B Agent receives such a Notice of Default or Failure of Condition, Agent or Tranche B Agent, as the case may be, shall give prompt notice thereof to Canadian Lenders. Agent shall (subject to Sections 9.2(d) and 12.7) take such action with respect to any such Default or Event of Default or failure of condition precedent as it shall be directed by Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action with respect to or by reasons of such Default, Event of Default or failure of condition precedent, as it shall deem advisable in the best interest of Canadian Lenders. Without limiting the foregoing, and notwithstanding the existence or occurrence and continuance of a Default or an Event of Default or any other failure to satisfy any of the conditions precedent set forth in Section 4 of this Agreement to the contrary, Required Lenders may, but shall have no obligation to, continue to make Revolving Loans and issue or cause to be issued Letter of Credit Accommodations from time to time if Required Lenders believe making such Revolving Loans or issuing or causing to be issued such Letter of Credit Accommodations is in the best interests of Canadian Lenders.

- (b) Except with the prior written consent of Agent, no Lender may assert or exercise any enforcement right or remedy in respect of the Collateral.

12.4 Agents in their Individual Capacity

With respect to the Loans made and Letter of Credit Accommodations issued or caused to be issued by Wachovia or Monroe and any successor acting as Agent or Tranche B Agent, as the case may be, so long as Wachovia or Monroe, as the case may be, shall be a Canadian Lender hereunder, it shall have the same rights and powers hereunder as any other Canadian Lender and may exercise the same as though it were not acting as Agent or Tranche B Agent, and the term “Canadian Lender” or “Canadian Lenders” shall, unless the context otherwise indicates, include Wachovia or Monroe, as the case may be, in its individual capacity as Canadian Lender hereunder. Each of Wachovia and Monroe (and any successor acting as Agent or Tranche B Agent) and its affiliates may (without having to account therefor to any Canadian Lender) lend money to, make investments in and generally engage in any kind of business with Canadian Borrower and any Obligor (and any of their respective Subsidiaries or affiliates) as if it were not acting as Agent or Tranche B Agent, and each of Wachovia and Monroe and its affiliates may accept fees and other consideration from Canadian Borrower, any Obligor and any of their respective Subsidiaries and affiliates for services in connection with this Agreement or otherwise without having to account for the same to Canadian Lenders.

12.5 Indemnification

Canadian Lenders agree to indemnify Agent (to the extent not reimbursed by Canadian Borrower hereunder and without limiting any obligations of Canadian Borrower hereunder) ratably, in accordance with their *pro rata* shares of the Loans, for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement

or any other Financing Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that Agent is obligated to pay hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that, no Canadian Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the party to be indemnified as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

Tranche B Lenders agree to indemnify Tranche B Agent (to the extent not reimbursed by Canadian Borrower hereunder and without limiting any obligations of Canadian Borrower hereunder) ratably, in accordance with their *pro rata* shares of the Tranche B Loans and commitments, for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Tranche B Agent arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Financing Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that Tranche B Agent is obligated to pay hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that, no Tranche B Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the party to be indemnified as determined by a final non-appealable judgment of a court of competent jurisdiction. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

12.6 Non-Reliance on Agent, Tranche B Agent and Other Lenders

Each Canadian Lender agrees that it has, independently and without reliance on Agent, Tranche B Agent or other Canadian Lenders, and based on such documents and information as it has deemed appropriate, made its own credit analysis of Canadian Borrower and Obligors and has made its own decision to enter into this Agreement and that it will, independently and without reliance upon Agent, Tranche B Agent or any other Canadian Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Financing Agreements and US Financing Agreements. Each of Agent and Tranche B Agent shall not be required to keep itself informed as to the performance or observance by Canadian Borrower or any Obligor of any term or provision of this Agreement or any of the other Financing Agreements or any other document referred to or provided for herein or therein or to inspect the properties or books of Canadian Borrower or any Obligor. Each of Agent and Tranche B Agent will use reasonable efforts to provide Canadian Lenders with any information received by it from Canadian Borrower or any Obligor which is required to be provided to Canadian Lenders or deemed to be requested by Canadian Lenders hereunder and with a copy of any Notice of Default or Failure of Condition received by it from Canadian Borrower or any Canadian Lender; provided, that, it shall not be liable to any Canadian Lender for any failure to do so, except to the extent that such failure is attributable to its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction.

12.7 Failure to Act

Except for action expressly required of Agent or Tranche B Agent hereunder and under the other Financing Agreements, Agent and Tranche B Agent, as the case may be, shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from Canadian Lenders of their indemnification obligations under Section 12.5 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

12.8 Concerning the Collateral and the Related Financing Agreements

Each Canadian Lender authorizes and directs Agent to enter into this Agreement and the other Financing Agreements. Each Tranche B Lender authorizes and directs Tranche B Agent to enter into this Agreement and the other Financing Agreements. Each Canadian Lender agrees that any action taken by Agent in accordance with the terms of this Agreement or the other Financing Agreements and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all Canadian Lenders. Each Tranche B Lender agrees that any action taken by Tranche B Agent in accordance with the terms of this Agreement or the other Financing Agreements and the exercise by Tranche B Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all Tranche B Lenders.

12.9 Field Audit, Examination Reports and other Information; Disclaimer by Lenders

By signing this Agreement, each Canadian Lender:

- (a) is deemed to have requested that Agent furnish such Canadian Lender, promptly after it becomes available, a copy of each field audit or examination report and report with respect to the Borrowing Base received by Agent (each field audit or examination report and report with respect to the Borrowing Base being referred to herein as a “**Report**” and collectively, “**Reports**”);
- (b) expressly agrees and acknowledges that Agent (i) does not make any representation or warranty as to the accuracy of any Report, or (ii) shall not be liable for any information contained in any Report;
- (c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or any other party performing any audit or examination will inspect only specific information regarding Canadian Borrower and will rely significantly upon Canadian Borrower’s books and records, as well as on representations of Canadian Borrower’s personnel; and
- (d) agrees to keep all Reports confidential and strictly for its internal use and not to distribute or use any Report in any other manner.

12.10 Collateral Matters

- (a) Agent may, at its option, from time to time, at any time on or after an Event of Default and for so long as the same is continuing or upon any other failure of a

condition precedent to the Loans and Letter of Credit Accommodations hereunder, make such disbursements and advances (“**Special Agent Advances**”) which Agent, in its sole discretion, (i) deems necessary or desirable either to preserve or protect the Collateral or any portion thereof; or (ii) to enhance the likelihood or maximize the amount of repayment by Canadian Borrower of the Loans and other Obligations; or (iii) to pay any other amount chargeable to Canadian Borrower pursuant to the terms of this Agreement or any of the other Financing Agreements consisting of costs, fees and expenses and payments to any issuer of Letter of Credit Accommodations provided, that, the aggregate principal amount of the Special Agent Advances and US Special Agent Advances shall not exceed US\$4,000,000. Special Agent Advances and US Special Agent Advances shall be repayable on demand and be secured by the Collateral. Special Agent Advances shall not constitute Loans but shall otherwise constitute Obligations hereunder.

- (b) Tranche B Agent may, at its option, from time to time, at any time on or after an Event of Default and for so long as the same is continuing, make such disbursements and advances (“**Special Tranche B Agent Advances**”) which Tranche B Agent, in its sole discretion, (i) deems necessary or desirable either to preserve or protect the Collateral or any portion thereof; or (ii) to enhance the likelihood or maximize the amount of repayment by Canadian Borrower of the Loans and other Obligations; provided, that, the aggregate principal amount of the Special Tranche B Agent Advances and the US Special Tranche B Agent Advances shall not exceed US\$2,150,000. Special Tranche B Agent Advances and the US Special Tranche B Agent Advances shall be repayable on demand and be secured by the Collateral. Special Tranche B Agent Advances shall not constitute Loans but shall otherwise constitute Obligations hereunder.
- (c) Canadian Lenders hereby irrevocably authorize Agent, at its option and in its discretion to release any Lien upon any of the Collateral (i) upon payment and satisfaction of all of the Obligations and delivery of cash collateral to the extent required under Section 11.1 below, or (ii) constituting property being sold or disposed of if Canadian Borrower certifies to Agent that the sale or disposition is made in compliance with Section 8.7 hereof (and Agent may rely conclusively on any such certificate, without further inquiry), or (iii) constituting property in which Canadian Borrower did not own an interest at the time the Lien was granted or at any time thereafter, or (iv) if required or permitted under the terms of any of the other Financing Agreements, or (v) approved, authorized or ratified in writing by all Canadian Lenders. Except as provided above, Agent will not release any Lien upon any of the Collateral without the prior written authorization of all of Canadian Lenders. Upon request by Agent at any time, Canadian Lenders will promptly confirm in writing Agent’s authority to release particular types or items of Collateral pursuant to this Section.
- (d) Without any manner limiting Agent’s authority to act without any specific or further authorization or consent by Canadian Lenders, each Canadian Lender agrees to confirm in writing, upon request by Agent, the authority to release Collateral conferred upon Agent under this Section. Agent shall (and is hereby

irrevocably authorized by Canadian Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent upon any Collateral to the extent set forth above; provided, that, (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligations or entail any consequence other than the release of such Liens without recourse or warranty and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Lien upon (or obligations of Canadian Borrower in respect of) the Collateral retained by Canadian Borrower.

- (e) Each of Agent and Tranche B Agent shall have no obligation whatsoever to any Lender or any other Person to investigate, confirm or assure that the Collateral exists or is owned by Canadian Borrower or is cared for, protected or insured or has been encumbered, or that any particular items of Collateral meet the eligibility criteria applicable in respect of the Loans or Letter of Credit Accommodations hereunder, or whether any particular reserves are appropriate, or that the liens and security interests granted to Agent pursuant hereto or any of the Financing Agreements or otherwise have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the other Financing Agreements, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, each of Agent and Tranche B Agent may act in any manner it may deem appropriate, in its discretion, given its own interest in the Collateral as a Canadian Lender and that each of Agent and Tranche B Agent shall have no duty or liability whatsoever to any other Canadian Lender.

12.11 Agency for Perfection

Each Lender hereby appoints Agent and each other Lender as agent and bailee for the purpose of perfecting the security interests in and Liens upon the Collateral in assets which, in accordance with the PPSA can be perfected only by possession (or where the security interest of a secured party with possession has priority over the security interest of another secured party) and each Lender hereby acknowledges that it holds possession of any such Collateral for the benefit of Agent as secured party. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

12.12 Successor Agent and Tranche B Agent

Agent may resign as Agent upon forty-five (45) days' notice to Canadian Lenders and Canadian Borrower. If Agent resigns under this Agreement, Required Lenders shall appoint a successor agent for Canadian Lenders. If no successor agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with Tranche B Lenders and Canadian Borrower, a successor agent. Upon the acceptance by the person so selected of its appointment as successor agent hereunder, such successor agent shall succeed to all of the rights,

powers and duties of the retiring Agent and the term “**Agent**” as used herein and in the other Financing Agreements shall mean such successor agent and the retiring Agent’s appointment, powers and duties as Agent shall be terminated. After any retiring Agent’s resignation hereunder as Agent, the provisions of this Section 12 shall inure to its benefit as to any actions taken or omitted by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is forty-five (45) days after the date of a retiring Agent’s notice of resignation, the retiring Agent’s resignation shall nonetheless thereupon become effective and Canadian Lenders shall perform all of the duties of Agent hereunder until such time, if any, as Required Lenders appoint a successor agent as provided for above. In the event that all Obligations other than in respect of the Tranche B Loan are fully paid and satisfied or Tranche B Lenders have exercised their option to purchase Obligations owing to Revolving Lender as provided in Section 11.10 hereof, (a) Agent may, at its option, appoint Tranche B Agent as successor “Agent” hereunder and (b) Tranche B Agent shall have the right, but not the obligation, upon written notice to Agent, to require Agent to resign under this Section 12.12 (and in the case of the exercise by Tranche B Lenders of their purchase option provided in Section 11.10 hereof, such resignation to be effective immediately upon the effectiveness of the purchase by Tranche B Lenders of the Obligations owing to Revolving Lender pursuant to the purchase option granted to Tranche B Lenders set forth in Section 11.10 hereof).

Tranche B Agent may resign as Tranche B Agent upon forty-five (45) days’ notice to Canadian Lenders and Canadian Borrower. If Tranche B Agent resigns under this Agreement, Required Tranche B Lenders shall appoint a successor agent for Tranche B Lenders. If no successor agent is appointed prior to the effective date of the resignation of Tranche B Agent, Tranche B Agent may appoint, after consulting with Tranche B Lenders and Canadian Borrower, a successor agent. Upon the acceptance by the person so selected of its appointment as successor agent hereunder, such successor agent shall succeed to all of the rights, powers and duties of the retiring Tranche B Agent and the term “Tranche B Agent” as used herein and in the other Financing Agreements shall mean such successor agent and the retiring Tranche B Agent’s appointment, powers and duties as Tranche B Agent shall be terminated. After any retiring Tranche B Agent’s resignation hereunder as Tranche B Agent, the provisions of this Section 12 shall inure to its benefit as to any actions taken or omitted by it while it was Tranche B Agent under this Agreement. If no successor agent has accepted appointment as Tranche B Agent by the date which is forty-five (45) days after the date of a retiring Tranche B Agent’s notice of resignation, the retiring Tranche B Agent’s resignation shall nonetheless thereupon become effective and Tranche B Lenders shall perform all of the duties of Tranche B Agent hereunder until such time, if any, as Required Tranche B Lenders appoint a successor agent as provided for above.

12.13 Existing Security held for Obligations

Agent and Canadian Lenders acknowledge, confirm and agree that, notwithstanding any terms of the Financing Agreements, Agent shall hold the Existing Security and Existing Security Agreements to the extent granted in its favour and a party thereto, respectively, as agent for Canadian Lenders and as security for the Obligations and shall apply the monetary proceeds of collections or of realization upon any Collateral subject to the Existing Security in accordance with Section 5.4 hereof.

Section 13 Acknowledgement and Restatement

13.1 Existing Obligations

Canadian Borrower hereby acknowledges, confirms and agrees that Canadian Borrower is indebted to Agent and Revolving Lender for outstanding loans and advances to Canadian Borrower under the Original Canadian Loan Agreement and in respect of Letter of Credit Accommodations, together with all interest accrued and accruing thereon (to the extent applicable), and all fees, costs, expenses and other charges relating thereto, all of which are unconditionally owing by Canadian Borrower to Agent and Revolving Lender to the extent set forth in the Original Canadian Loan Agreement, without offset, defense or counterclaim of any kind, nature or description whatsoever.

13.2 Acknowledgment of Security Interests

- (a) Canadian Borrower hereby acknowledges, confirms and agrees that Agent on behalf of itself, Tranche B Agent and Canadian Lenders shall continue to have a security interest in and Lien upon the Collateral heretofore granted to Agent pursuant to the Original Canadian Loan Agreement and Existing Security Agreements to secure the Obligations, as well as any Collateral granted under this Agreement or under any of the other Financing Agreements or otherwise granted to or held by Agent, Tranche B Agent or any Canadian Lender.
- (b) The Liens and security interests of Agent in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such Liens and security interests to Agent, whether under the Original Canadian Loan Agreement and Existing Security Agreements, this Agreement or any of the other Financing Agreements.

13.3 Original Canadian Loan Agreement

Canadian Borrower hereby acknowledges, confirms and agrees that, subject to Section 13.4 hereof: (a) the Original Canadian Loan Agreement has been duly executed and delivered by Canadian Borrower and is in full force and effect as of the Closing Date; (b) the agreements and obligations of Canadian Borrower contained in the Original Canadian Loan Agreement constitute the legal, valid and binding obligations of Canadian Borrower, enforceable against Canadian Borrower in accordance with its terms and Canadian Borrower has no valid defense to the enforcement of such obligations; and (c) Agent, Tranche B Agent and the Canadian Lenders are entitled to all of the rights, remedies and benefits provided for in or arising pursuant to the Original Canadian Loan Agreement.

13.4 Restatement

- (a) Except as otherwise stated in Section 13.2 hereof and this Section 13.4, as of the Closing Date, the terms, conditions, agreements, covenants, representations and warranties set forth in the Original Canadian Loan Agreement are simultaneously amended and restated in their entirety, and are amended and restated, replaced and superseded by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Financing Agreements

executed and/or delivered on or after the Closing Date, except that nothing herein or in the other Financing Agreements shall impair or adversely affect the continuation of the liability of Canadian Borrower for the Obligations heretofore incurred and the security interests, Liens, and other interests in the Collateral heretofore granted, pledged and/or assigned by Canadian Borrower to Agent or any Canadian Lender (whether directly, indirectly or otherwise).

- (b) The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations and other obligations, liabilities and indebtedness of Canadian Borrower evidenced by or arising under the Original Canadian Loan Agreement, and the Liens and security interests of Agent securing such Obligations and other obligations, liabilities and indebtedness, which shall not in any manner be impaired, limited, terminated, waived or released, but shall continue in full force and effect in favor of Agent for the benefit of itself, Tranche B Agent and Canadian Lenders.
- (c) All loans, advances and other financial accommodations under the Original Canadian Loan Agreement and all other Obligations of Canadian Borrower to Agent and Lenders outstanding and unpaid as of the Closing Date pursuant to the Original Canadian Loan Agreement or otherwise shall be deemed Obligations of Canadian Borrower pursuant to the terms hereof. The principal amount of the Revolving Loans and the amount of the Letter of Credit Accommodations outstanding as of the Closing Date under the Original Canadian Loan Agreement shall be allocated to the Revolving Loans and Letter of Credit Accommodations hereunder in such manner and in such amounts as Agent shall determine in accordance with the terms hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Revolving Lender, Agent, Tranche B Agent, Tranche B Lender and Canadian Borrower have caused this Agreement to be duly executed as of the day and year first above written.

REVOLVING LENDER AND AGENT

**WACHOVIA CAPITAL FINANCE CORPORATION
(CANADA)**

By: _____

Name:

Title:

Address:

141 Adelaide Street West, Suite 1500

Toronto, Ontario, M5H 3L9

Fax: (416) 364-6068

Fax: (416) 364-6068

TRANCHE B LENDER AND TRANCHE B AGENT

MONROE CAPITAL MANAGEMENT ADVISORS LLC

By: _____

Name:

Title:

Address:

Monroe Capital Advisors, LLC

311 South Wacker Drive

Suite 6400

Chicago, Illinois 60606

Attention: Alex Franky

Fax: (312) 258-8350

CANADIAN BORROWER

**SMTC MANUFACTURING
CORPORATION OF CANADA/SOCIETE
DE FABRICATION SMTC DU CANADA**

By: _____

Name:

Title

Address:

635 Hood Road
Markham, Ontario, L3R 4N6
Fax No: (905) 479-5326

EXHIBIT A
INFORMATION CERTIFICATE

SCHEDULE 1.10
BORROWING BASE CERTIFICATE

SCHEDULE 1.34(f)
FORM OF BILLING AUTHORIZATION LETTER RE: ACCOUNTS

Form not delivered by SMTC prior to closing.

SCHEDULE 1.34(g)
FORM OF NO-OFFSET AGREEMENT RE: ACCOUNTS

Form not delivered by SMTC prior to closing.

SCHEDULE 1.35
FORM OF INVENTORY PURCHASE AGREEMENT

Form not delivered by SMTC prior to closing.

SCHEDULE 1.43
EXISTING SECURITY AGREEMENTS

SCHEDULE 1.72
MAJOR CUSTOMER DESIGNATED FACILITIES

SCHEDULE 1.80
MEXICAN SECURITY DOCUMENTS

1. Guarantee of Canadian Borrower given by Radio Componentes de Mexico, S.A. de C.V.
2. First priority mortgage on all real estate owned by Radio Componentes de Mexico, S.A. de C.V.
3. Non-possessory pledge and deposit agreement over all of the assets owned by SMTC Mex Holdings, Inc. located at any time in Mexico.
4. Stock Pledge Agreement granted by SMTC Mex Holdings, Inc. over the shares of SMTC de Chihuahua, S.A. de C.V.

SCHEDULE 1.107
DESCRIPTION OF REVOLVING LOAN PRIORITY COLLATERAL

1. all Accounts;
2. all Inventory;
3. all Related Intangibles;
4. all Receivables; and
5. all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims against third parties for loss or damage to or destruction of or other involuntary conversion of any kind or nature of any or all of the Collateral (described in clauses 1 through 4 above). As used herein, products and proceeds shall not include any Tranche B Loan Priority Collateral purchased or otherwise acquired by any Obligor (including from proceeds of any loans, advances or other financial accommodations provided by Revolving Lender or US Revolving Lender to any Obligor).

DEFINITIONS

“**Accounts**” shall mean all present and future rights of an Obligor to payment of a monetary obligation, whether or not earned by performance, which is not evidenced by chattel paper or an instrument, (a) for Inventory that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, (b) for services rendered or to be rendered, (c) for a secondary obligation supporting the payment or performance of Accounts incurred or to be incurred, or (d) arising out of the use of a credit card or charge card or information contained on or for use with the card with respect to the payment of amounts constituting Accounts.

“**Related Intangibles**” shall mean (a) payment intangibles, contract rights, commercial tort claims, choses in action or causes of actions or claims in each case arising out of or supporting the payment or performance of Accounts or Inventory; (b) guaranty or warranty claims with respect to Accounts or Inventory; (c) all letters of credit, banker’s acceptances and similar instruments of each Obligor supporting or received in consideration for any Inventory or Account of an Obligor; (d) all supporting obligations evidencing Accounts with respect to such Obligor and all present and future Liens, security interests, rights, remedies, title and interest supporting or received or receivable in respect of Inventory and Accounts of an Obligor, including (i) rights and remedies under or relating to guaranties, indemnities, contracts of suretyship, letters of credit and credit and other insurance, (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts, including returned, repossessed and reclaimed goods, and (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors, in each case for purposes of clauses (i) through (iv), to the extent supporting or securing, or arising from, Accounts or Inventory of such Obligor; and (e) monies, credit balances, deposits and other property of each Obligor constituting proceeds of Accounts, Inventory or any of the foregoing now or hereafter held or received by or in transit to Agent, any Lender or at any other depository or other institution from or for the account of any

Obligor, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including blocked accounts, agent payment accounts and investment property accounts. It is understood and agreed that, except as otherwise expressly provided above, Related Intangibles shall not include general intangibles, including without limitation copyrights, patents, trademarks, trade names, mailing lists or other intellectual property, or the proceeds of any of the foregoing and all other intangibles.

“Inventory” shall mean the following now owned or hereafter arising or acquired property of an Obligor: “inventory”, as such term is defined in the PPSA and inventory, goods, and merchandise to be furnished under any contract of service or held for sale or lease, returned goods, raw materials, work-in-process, finished goods (including embedded software), other materials and supplies of any kind, nature, or description in each case which are used or consumed in a Person’s business or used in connection with the packing, shipping, advertising, selling, or finishing of such goods, merchandise, and all documents of title or other documents representing them; provided that, notwithstanding anything to the contrary contained herein, “Inventory” shall not include any fixtures, machinery, equipment or real property (whether owned or leased), or any products or proceeds of the foregoing.

“Receivables” shall mean the following now owned or hereafter arising or acquired property of an Obligor: (a) all Accounts; (b) all interest, fees, late charges, penalties, collection fees and other amounts due or to become due or otherwise payable in connection with any Account; (c) all instruments evidencing Accounts or Inventory, including all promissory notes relating to the foregoing; (d) all chattel paper with respect to, or otherwise representing or evidencing, Accounts or Inventory; (e) all documents representing or evidencing, Accounts or Inventory; (f) the proceeds of all of the foregoing; and (g) all ledgers, books of account, records, software, tapes, cards, computer programs, computer disks or tapes, computer printouts, computer runs, and other computer prepared information relating in each case solely to any of the foregoing.

**SCHEDULE 7.4
EXISTING LIENS**

SCHEDULE 7.8
BANK ACCOUNTS

SCHEDULE 7.16
LABOUR DISPUTES

SCHEDULE 8.9
EXISTING INDEBTEDNESS

SCHEDULE 8.10
EXISTING LOANS, ADVANCES AND GUARANTEE

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Canada), as Agent
141 Adelaide Street West, Suite 1500
Toronto, Ontario M5H 3L9

Re: SMTC Manufacturing Corporation of Canada/Societe De Fabrication SMTC Du Canada (the "Borrower")

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Canada) ("**Congress**") (predecessor to Wachovia Capital Finance Corporation (Canada) ("**Wachovia**")) has entered into certain financing arrangements with Borrower and affiliates of Borrower pursuant to which Congress made loans and provided other financial accommodations to Borrower and its affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the "**Original Loan Agreement**") and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the "**Original Guarantee**") (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the "**Original Financing Agreements**").

WHEREAS Borrower has requested that Wachovia (in such capacity, together with any successors and assigns if any, the "**Agent**") for and on behalf of itself and as agent for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the "**Tranche B Agent**") and the lenders from time to time party to the Loan Agreement (as hereinafter defined) (collectively, the "**Lenders**") amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the "**Loan Agreement**") and Borrower, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the "**Financing Agreements**"); and

WHEREAS due to the close business and financial relationships between Borrower and each of the undersigned (individually, a "**Guarantor**" and collectively, the "**Guarantors**"), in consideration of the benefits which will accrue to Guarantors and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing

GUARANTEE RE CDN LOAN

other financial accommodations to Borrower and its affiliates pursuant to the Loan Agreement and other Financing Agreements, each Guarantor hereby jointly and severally agrees to amend and restate the Original Guarantee and provide this Amended and Restated Guarantee (the “**Guarantee**”) as follows:

1. Guarantee

- (a) Each Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to Borrower and/or its affiliates under the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”), *Companies’ Creditors Arrangement Act* (Canada) (“**CCAA**”) or any similar statute in any jurisdiction (the “**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of Borrower or its affiliates or successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent, Tranche B Agent and Lenders directly or indirectly arising out of or related to the relationships between Borrower and its affiliates, any Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the

GUARANTEE RE CDN LOAN

initial or any renewal term of the Loan Agreement or other Financing Agreements or after the commencement of any case with respect to Borrower or any Guarantor under the Insolvency Legislation.

- (b) This Guarantee is a guaranty of payment and not of collection. Each Guarantor agrees that Agent for itself, Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrower and/or its affiliates, any other Guarantor or any other Obligor or to realize upon any collateral, but may require any Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent or Lenders with respect thereto or otherwise chargeable to Borrower and/or its affiliates or Guarantors) and in accordance with the Loan Agreement.
- (c) Payment by a Guarantor shall be made to Agent, Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Each Guarantor shall make all payments to Agent for itself, Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against any Guarantor either in the same action in which Borrower and/or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against any Guarantor, each Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to any Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrower and its affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrower and/or its affiliates or any Guarantor is entitled are hereby waived by each Guarantor. Each Guarantor also waives notice of and hereby consents to:
 - (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;

GUARANTEE RE CDN LOAN

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- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of Borrower and/or its affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);
 - (iii) the exercise of, or refraining from the exercise of any rights against Borrower and/or its affiliates, any Guarantor or any other Obligor or any collateral;
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations. Each Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of each Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing; and
 - (v) any Financing by Agent or Lenders of Borrower under Section 364 of the United Bankruptcy Code or consent to the use of cash collateral by Agent under Section 363 of the United States Bankruptcy Code.
- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of Borrower or its affiliates in respect of any of the Guaranteed Obligations, or any Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of each Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to Borrower or its affiliates under any Insolvency Legislation, each Guarantor shall be liable therefor, even if Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Each Guarantor acknowledges that Agent has not made any representations to any Guarantor with respect to Borrower and its affiliates or any other Obligor or otherwise in connection with the execution and delivery by each Guarantor of this Guarantee and each Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Each Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrower and its affiliates, any collateral for the Guaranteed Obligations or other

GUARANTEE RE CDN LOAN

assets of Borrower and/or its affiliates or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself, and for the benefit of Tranche B Agent and Lenders by each Guarantor hereunder and each Guarantor hereby further irrevocably and unconditionally waives and relinquishes any and all other benefits which a Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from such Guarantor, Borrower and/or its affiliates or any other Obligor upon the Guaranteed Obligations or realized from their property.

- (d) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by each Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by each Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by each Guarantor without rendering such Guarantor's obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.
3. Subordination. Payment of all amounts now or hereafter owed to each Guarantor by Borrower and/or its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, Tranche B Agent and Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of each Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of Borrower and/or its affiliates or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
5. Account Stated. The books and records of Agent showing the account between Agent and Borrower shall be admissible in evidence in any action or proceeding against or involving a Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and Borrower and be binding on all Guarantors.
6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. A Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from such Guarantor sent to Agent

GUARANTEE RE CDN LOAN

at its address set forth above by certified mail (return receipt requested) and thereafter as set forth below. Revocation or termination hereof by a Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of such Guarantor under this Guarantee with respect to:

- (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
 - (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);
 - (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against Borrower and/or its affiliates, any Guarantor or any other Obligor (whether or not suit be brought); or
 - (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by a Guarantor shall be to exclude from this Guarantee the liability of such Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent or Lenders. Each Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.

GUARANTEE RE CDN LOAN

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8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.
9. Corporate Existence, Power and Authority. Each Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of each Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of each Guarantor, or any indenture, agreement or undertaking to which a Guarantor is a party or by which a Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of each Guarantor enforceable in accordance with its terms. Each Guarantor signing this guarantee shall be bound hereby whether or not any other Guarantor or any other person signs this Guarantee at any time.
10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver
- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between any Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would result in the application of the law of any jurisdiction other than the laws of the State of Illinois.
- (b) Each Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Agent elects, and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of any Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between any

GUARANTEE RE CDN LOAN

Guarantor, Borrower and/or its affiliates, any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against any Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by Borrower and/or its affiliates or any Guarantor to Agent or to otherwise enforce its rights against any Guarantor or its property).

- (c) Each Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon a Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, applicable Guarantor shall appear in answer to such process, failing which such Guarantor shall be deemed in default and judgment may be entered by Agent against any Guarantor for the amount of the claim and other relief requested.
- (d) EACH GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF ANY GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTORS AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Neither Agent, Tranche B Agent nor any Lender shall have any liability to any Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by a Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.

GUARANTEE RE CDN LOAN

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11. Judgment Currency. To the extent permitted by applicable law, the obligations of each Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which such Guarantor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself, Tranche B Agent and Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.
 12. Notices. All notices, requests and demands hereunder shall be in writing and:
 - (a) made to Agent at its address set forth above and to each Guarantor at its Chief Executive Office: set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
 - (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
 13. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
 14. Entire Agreement. This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
 15. Successors and Assigns. This Guarantee shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of a Guarantor shall not terminate this Guarantee as to such entity or as to any other Guarantor.

GUARANTEE RE CDN LOAN

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16. Construction. All references to the term “**Guarantor(s)**” wherever used herein shall mean each Guarantor and its respective successors and assigns (including, without limitation, any receiver, trustee or custodian for any Guarantor or any of its assets or any Guarantor in its capacity as debtor or debtor-in-possession under any Insolvency Legislation). All references to the term “**Agent**” wherever used herein shall mean Agent and its successors and assigns and all references to the term “**Borrower**” or its “**affiliates**” wherever used herein shall mean Borrower and its affiliates and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrower or its affiliates or any of their respective assets or Borrower or its affiliates in their capacities as debtor or debtor-in-possession under any Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.
 17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of any Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as a “Borrower” or “Guarantor” thereunder. Each of the undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.
 18. Acknowledgement. Each Guarantor acknowledges receipt of a copy of this Guarantee.

GUARANTEE RE CDN LOAN

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19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

[SIGNATURE PAGE TO FOLLOW]

GUARANTEE RE CDN LOAN

IN WITNESS WHEREOF, each Guarantor has executed and delivered this Amended and Restated Guarantee as of the day and year first above written.

ATTEST:

SMTC CORPORATION

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

ATTEST:

SMTC MANUFACTURING CORPORATION OF CALIFORNIA

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

2302 Trade Zone Boulevard
San Jose, California 95131
Fax No.: (408) 934-7101

GUARANTEE RE CDN LOAN

ATTEST:

SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

109 Constitution Boulevard, Unit 160
Franklin, Massachusetts 02038
Fax No.: (508) 520-9351

ATTEST:

HTM HOLDINGS, INC.

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

GUARANTEE RE CDN LOAN

ATTEST:

SMTC MEX HOLDINGS, INC.

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

ATTEST:

SMTC DE CHIHUAHUA, S.A. DE C.V.

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

Ave. Washington No 3701 Building 20
Parque Industrial Las Américas
Chihuahua, Chihuahua, Mexico

GUARANTEE RE CDN LOAN

ATTEST:

RADIO COMPONENTES DE MEXICO, S.A. DE C.V.

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

Ave. Washington No 3701 Building 20
Parque Industrial Las Américas
Chihuahua, Chihuahua, Mexico

ATTEST:

SMTC HOLDINGS, LLC

By: SMTC CORPORATION, its sole member

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

GUARANTEE RE CDN LOAN

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Central), as Agent
150 South Wacker Drive, Suite 2200
Chicago, Illinois 60606

Re: SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (individually, a “Borrower” and collectively, the “Borrowers”)

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Central) (“**Congress**”) (predecessor to Wachovia Capital Finance Corporation (Central) (“**Wachovia**”)) individually and as collateral agent has entered into certain financing arrangements with Borrowers and affiliates of Borrowers pursuant to which Congress made loans and provided other financial accommodations to Borrowers and their affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Loan Agreement**”) and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the “**Original Guarantee**”) (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the “**Original Financing Agreements**”);

WHEREAS Borrowers have requested that Wachovia (in such capacity, together with any successors and assigns if any, the “**Agent**”) for and on behalf of itself and as agent for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the “**Tranche B Agent**”) and the lenders from time to time party to the Loan Agreement (as hereinafter defined) (collectively, the “**Lenders**”) amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Loan Agreement**”) and Borrowers, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the “**Financing Agreements**”); and

WHEREAS due to the close business and financial relationships between Borrowers, in consideration of the benefits which will accrue to the undersigned (the “**Guarantor**”) and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing other financial accommodations to Borrowers and their affiliates

SMTC CA GUARANTEE

pursuant to the Loan Agreement and other Financing Agreements, the Guarantor hereby agrees to amend and restate the Original Guarantee and provide this Amended and Restated Guarantee (the “**Guarantee**”) as follows:

1. Guarantee

- (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of each Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to a Borrower and/or its affiliates under the United States Bankruptcy Code or any similar statute in any jurisdiction (the “**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of a Borrower and its affiliates or their respective successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of each Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent, Tranche B Agent and Lenders directly or indirectly arising out of or related to the relationships between Borrowers and their affiliates, Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement or other Financing Agreements or after the commencement of any case with respect to Borrowers and/or their affiliates or Guarantor under the Insolvency Legislation.

SMTCA GUARANTEE

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- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Agent for itself, Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrowers and/or their affiliates or any other Obligor or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent or Lenders with respect thereto or otherwise chargeable to Borrowers and their affiliates or Guarantor) and in accordance with the Loan Agreement.
- (c) Payment by Guarantor shall be made to Agent, for itself, Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Guarantor shall make all payments to Agent for itself, Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which a Borrower or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrowers and their affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers and/or their affiliates or Guarantor is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to:
- (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;

SMTC CA GUARANTEE

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- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of Borrowers and/or their affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);
 - (iii) the exercise of, or refraining from the exercise of any rights against a Borrower and/or its affiliates, Guarantor or any other Obligor or any collateral;
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations; and
 - (v) any financing by Agent or Lenders of Borrowers under Section 364 of the United States Bankruptcy Code or consent to the use of cash collateral by Agent under Section 363 of the United States Bankruptcy Code.

Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.

- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of a Borrower or its affiliates in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to a Borrower or its affiliates under any Insolvency Legislation, Guarantor shall be liable therefor, even if a Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Agent has not made any representations to Guarantor with respect to Borrowers and/or their affiliates, any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrowers and their affiliates, any collateral for the Guaranteed Obligations or other assets of Borrowers and their affiliates or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself, and for the benefit of the Tranche B Agent and Lenders by Guarantor hereunder and

SMTC CA GUARANTEE

Guarantor hereby further irrevocably and unconditionally waives and relinquishes any and all other benefits which Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantor, Borrowers and/or their or any other Obligor upon the Guaranteed Obligations or realized from their property.

- (d) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by Guarantor without rendering Guarantor's obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.
3. Subordination. Payment of all amounts now or hereafter owed to Guarantor by a Borrower or its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, Tranche B Agent and Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of a Borrower or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
5. Account Stated. The books and records of Agent showing the account between Agent and Borrowers shall be admissible in evidence in any action or proceeding against or involving Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to a Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to such Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and such Borrower and be binding on Guarantor.
6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from Guarantor sent to Agent at its address set forth above by certified mail (return receipt requested) and thereafter as set forth below. Revocation or termination hereof by Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of Guarantor under this Guarantee with respect to:
- (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
- (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);

SMTCA GUARANTEE

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- (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against a Borrower or its affiliates, Guarantor or any other Obligor (whether or not suit be brought); or
- (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by Guarantor shall be to exclude from this Guarantee the liability of Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent or Lenders. Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.
8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an

SMTCA GUARANTEE

authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority. Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms. Guarantor shall be bound hereby whether or not any other person signs this Guarantee at any time.
10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver
- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would result in the application of the law of any jurisdiction other than the laws of the State of Illinois.
- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Agent elects, and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrowers or their affiliates or any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by a Borrower or its affiliates or Guarantor to Agent or to otherwise enforce its rights against Guarantor or its property).

SMTCA GUARANTEE

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- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the US mails, or, at Agent's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Agent against Guarantor for the amount of the claim and other relief requested.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Neither Agent, Tranche B Agent nor any Lender shall have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.
11. Judgment Currency. To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the "**Other Currency**") (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the

SMTC CA GUARANTEE

“**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself, Tranche B Agent and Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

12. Notices. All notices, requests and demands hereunder shall be in writing and:
 - (a) made to Agent at its address set forth above and to Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
 - (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
13. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
14. Entire Agreement. This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
15. Successors and Assigns. This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee as to such entity or as to any other guarantor.
16. Construction. All references to the term “**Guarantor**” wherever used herein shall mean Guarantor and its successors and assigns (including, without limitation, any receiver, trustee or custodian for Guarantor or of its assets or Guarantor in its capacity as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term

SMTC CA GUARANTEE

“**Agent**” wherever used herein shall mean Agent and its successors and assigns and all references to the term “**Borrowers**” or “**affiliates**” wherever used herein shall mean each Borrower and affiliate and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers or affiliates or any of their assets or Borrowers or affiliates in their capacities as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.

17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of any Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as a “Borrower” or “Guarantor” thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.
18. Acknowledgement. Guarantor acknowledges receipt of a copy of this Guarantee.
19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

SMTCA GUARANTEE

IN WITNESS WHEREOF, Guarantor has executed and delivered this Amended and Restated Guarantee as of the day and year first above written.

ATTEST:

SMTC MANUFACTURING CORPORATION OF CALIFORNIA

By:

Title:

ATTEST:

By:

Title:

[CORPORATE SEAL]

Chief Executive Office:

2302 Trade Zone Boulevard
San Jose, California
95131
Fax: (408) 934-7101

SMTC CA GUARANTEE

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Central), as Agent
150 South Wacker Drive, Suite 2200
Chicago, Illinois 60606

Re: SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (individually, a “Borrower” and collectively, the “Borrowers”)

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Central) (“**Congress**”) (predecessor to Wachovia Capital Finance Corporation (Central) (“**Wachovia**”)) individually and as collateral agent has entered into certain financing arrangements with Borrowers and affiliates of Borrowers pursuant to which Congress made loans and provided other financial accommodations to Borrowers and their affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Loan Agreement**”) and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the “**Original Guarantee**”) (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the “**Original Financing Agreements**”);

WHEREAS Borrowers have requested that Wachovia (in such capacity, together with any successors and assigns if any, the “**Agent**”) for and on behalf of itself and as agent for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the “**Tranche B Agent**”) and the lenders from time to time party to the Loan Agreement (as hereinafter defined) (collectively, the “**Lenders**”), amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Loan Agreement**”) and Borrowers, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the “**Financing Agreements**”); and

WHEREAS due to the close business and financial relationships between Borrowers, in consideration of the benefits which will accrue to the undersigned (the “**Guarantor**”) and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing other financial accommodations to Borrowers and their affiliates

SMTC MA GUARANTEE

pursuant to the Loan Agreement and other Financing Agreements, the Guarantor hereby agrees to amend and restate the Original Guarantee and provide this Amended and Restated Guarantee (the “**Guarantee**”) as follows:

1. Guarantee

- (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of each Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to a Borrower and/or its affiliates under the United States Bankruptcy Code or any similar statute in any jurisdiction (the “**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of a Borrower and its affiliates or their respective successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of each Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent, Tranche B Agent and Lenders directly or indirectly arising out of or related to the relationships between Borrowers and their affiliates, Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement or other Financing

SMTC MA GUARANTEE

Agreements or after the commencement of any case with respect to Borrowers and/or their affiliates or Guarantor under the Insolvency Legislation.

- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Agent for itself, Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrowers and/or their affiliates or any other Obligor or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent or Lenders with respect thereto or otherwise chargeable to Borrowers and their affiliates or Guarantor) and in accordance with the Loan Agreement.
- (c) Payment by Guarantor shall be made to Agent, for itself, Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Guarantor shall make all payments to Agent for itself, Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which a Borrower or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrowers and their affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers and/or their affiliates or Guarantor is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to:
 - (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;

SMTC MA GUARANTEE

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- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of Borrowers and/or their affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);
 - (iii) the exercise of, or refraining from the exercise of any rights against a Borrower and/or its affiliates, Guarantor or any other Obligor or any collateral;
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations; and
 - (v) any financing by Agent or Lenders of Borrowers under Section 364 of the United States Bankruptcy Code or consent to the use of cash collateral by Agent under Section 363 of the United States Bankruptcy Code.

Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.

- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of a Borrower or its affiliates in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to a Borrower or its affiliates under any Insolvency Legislation, Guarantor shall be liable therefor, even if a Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Agent has not made any representations to Guarantor with respect to Borrowers and/or their affiliates, any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrowers and their affiliates, any collateral for the Guaranteed Obligations or other assets of Borrowers and their affiliates or any other Obligor, for

SMTC MA GUARANTEE

subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself, and for the benefit of the Tranche B Agent and Lenders by Guarantor hereunder and Guarantor hereby further irrevocably and unconditionally waives and relinquishes any and all other benefits which Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantor, Borrowers and/or their or any other Obligor upon the Guaranteed Obligations or realized from their property.

- (d) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by Guarantor without rendering Guarantor's obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.
3. Subordination. Payment of all amounts now or hereafter owed to Guarantor by a Borrower or its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, Tranche B Agent and Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of a Borrower or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
5. Account Stated. The books and records of Agent showing the account between Agent and Borrowers shall be admissible in evidence in any action or proceeding against or involving Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to a Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to such Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and such Borrower and be binding on Guarantor.
6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from Guarantor sent to Agent at its address set forth above by certified mail (return receipt requested) and thereafter as set forth below. Revocation or termination hereof by Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of Guarantor under this Guarantee with respect to:
- (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
- (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);

SMTC MA GUARANTEE

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- (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against a Borrower or its affiliates, Guarantor or any other Obligor (whether or not suit be brought); or
- (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by Guarantor shall be to exclude from this Guarantee the liability of Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent or Lenders. Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.
8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a

SMTC MA GUARANTEE

written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority. Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms. Guarantor shall be bound hereby whether or not any other person signs this Guarantee at any time.
10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver
- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would result in the application of the law of any jurisdiction other than the laws of the State of Illinois.
- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Agent elects, and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrowers or their affiliates or any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except

SMTC MA GUARANTEE

that Agent shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by a Borrower or its affiliates or Guarantor to Agent or to otherwise enforce its rights against Guarantor or its property).

- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the US mails, or, at Agent's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Agent against Guarantor for the amount of the claim and other relief requested.
 - (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
 - (e) Neither Agent, Tranche B Agent nor any Lender shall have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.
11. Judgment Currency. To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Agreement and other Financing

SMTC MA GUARANTEE

Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself, Tranche B Agent and Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

12. Notices. All notices, requests and demands hereunder shall be in writing and:
 - (a) made to Agent at its address set forth above and to Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
 - (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
13. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
14. Entire Agreement. This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
15. Successors and Assigns. This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee as to such entity or as to any other guarantor.

SMTC MA GUARANTEE

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16. Construction. All references to the term “**Guarantor**” wherever used herein shall mean Guarantor and its successors and assigns (including, without limitation, any receiver, trustee or custodian for Guarantor or of its assets or Guarantor in its capacity as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Agent**” wherever used herein shall mean Agent and its successors and assigns and all references to the term “**Borrowers**” or “**affiliates**” wherever used herein shall mean each Borrower and affiliate and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers or affiliates or any of their assets or Borrowers or affiliates in their capacities as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.
 17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of any Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as a “Borrower” or “Guarantor” thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.
 18. Acknowledgement. Guarantor acknowledges receipt of a copy of this Guarantee.
 19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

SMTC MA GUARANTEE

20. **IN WITNESS WHEREOF**, Guarantor has executed and delivered this Amended and Restated Guarantee as of the day and year first above written.

ATTEST:

**SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS**

By:

Title:

ATTEST:

By:

Title:

[CORPORATE SEAL]

Chief Executive Office:

109 Constitution Boulevard
Unit 160
Franklin, Massachusetts
02038
Fax: (508) 520-9351

SMTC MA GUARANTEE

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Central), as Agent
150 South Wacker Drive, Suite 2200
Chicago, Illinois 60606

Re: SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (individually, a “Borrower” and collectively, the “Borrowers”)

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Central) (“**Congress**”) (predecessor to Wachovia Capital Finance Corporation (Central) (“**Wachovia**”)) individually and as collateral agent has entered into certain financing arrangements with Borrowers and affiliates of Borrowers pursuant to which Congress made loans and provided other financial accommodations to Borrowers and their affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Loan Agreement**”) and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the “**Original Guarantee**”) (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the “**Original Financing Agreements**”);

WHEREAS Borrowers have requested that Wachovia (in such capacity, together with any successors and assigns if any, the “**Agent**”) for and on behalf of itself and as agent for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the “**Tranche B Agent**”) and the lenders from time to time party to the Loan Agreement (as hereinafter defined) (collectively, the “**Lenders**”), amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Loan Agreement**”) and Borrowers, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the “**Financing Agreements**”); and

WHEREAS due to the close business and financial relationships between Borrowers, in consideration of the benefits which will accrue to the undersigned (the “**Guarantor**”) and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing other financial accommodations to Borrowers and their affiliates

MEX HOLDINGS GUARANTEE

pursuant to the Loan Agreement and other Financing Agreements, the Guarantor hereby agrees to amend and restate the Original Guarantee and provide this Amended and Restated Guarantee (the “**Guarantee**”) as follows:

1. Guarantee

- (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of each Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to a Borrower and/or its affiliates under the United States Bankruptcy Code or any similar statute in any jurisdiction (the “**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of a Borrower and its affiliates or their respective successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of each Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent, Tranche B Agent and Lenders directly or indirectly arising out of or related to the relationships between Borrowers and their affiliates, Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement or other Financing Agreements or after the commencement of any case with respect to Borrowers and/or their affiliates or Guarantor under the Insolvency Legislation.

MEX HOLDINGS GUARANTEE

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- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Agent for itself, Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrowers and/or their affiliates or any other Obligor or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent or Lenders with respect thereto or otherwise chargeable to Borrowers and their affiliates or Guarantor) and in accordance with the Loan Agreement.
- (c) Payment by Guarantor shall be made to Agent for itself, Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Guarantor shall make all payments to Agent for itself, Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which a Borrower or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrowers and their affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers and/or their affiliates or Guarantor is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to:
- (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;

MEX HOLDINGS GUARANTEE

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- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of Borrowers and/or their affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);
 - (iii) the exercise of, or refraining from the exercise of any rights against a Borrower and/or its affiliates, Guarantor or any other Obligor or any collateral;
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations; and
 - (v) any financing by Agent or Lenders of Borrowers under Section 364 of the United States Bankruptcy Code or consent to the use of cash collateral by Agent under Section 363 of the United States Bankruptcy Code.

Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.

- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of a Borrower or its affiliates in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to a Borrower or its affiliates under any Insolvency Legislation, Guarantor shall be liable therefor, even if a Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Agent has not made any representations to Guarantor with respect to Borrowers and/or their affiliates, any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrowers and their affiliates, any collateral for the Guaranteed Obligations or other assets of Borrowers and their affiliates or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself or the benefit of Tranche B Agent and Lenders by Guarantor hereunder and Guarantor hereby

MEX HOLDINGS GUARANTEE

further irrevocably and unconditionally waives and relinquishes any and all other benefits which Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantor, Borrowers and/or their or any other Obligor upon the Guaranteed Obligations or realized from their property.

- (d) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by Guarantor without rendering Guarantor's obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.
3. Subordination. Payment of all amounts now or hereafter owed to Guarantor by a Borrower or its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, Tranche B Agent or Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of a Borrower or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
5. Account Stated. The books and records of Agent showing the account between Agent and Borrowers shall be admissible in evidence in any action or proceeding against or involving Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to a Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to such Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and such Borrower and be binding on Guarantor.
6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from Guarantor sent to Agent at its address set forth above by certified mail (return receipt requested) and thereafter as set forth below. Revocation or termination hereof by Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of Guarantor under this Guarantee with respect to:
- (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
- (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);

MEX HOLDINGS GUARANTEE

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- (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against a Borrower or its affiliates, Guarantor or any other Obligor (whether or not suit be brought); or
- (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by Guarantor shall be to exclude from this Guarantee the liability of Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent or Lenders. Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.
8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an

MEX HOLDINGS GUARANTEE

authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority. Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms. Guarantor shall be bound hereby whether or not any other person signs this Guarantee at any time.
10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver
- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would result in the application of the law of any jurisdiction other than the laws of the State of Illinois.
- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Agent elects, and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrowers or their affiliates or any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by a Borrower or its affiliates or Guarantor to Agent or to otherwise enforce its rights against Guarantor or its property).

MEX HOLDINGS GUARANTEE

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- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the US mails, or, at Agent's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Agent against Guarantor for the amount of the claim and other relief requested.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Neither Agent, Tranche B Agent nor any Lender shall have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.
11. Judgment Currency. To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the "**Other Currency**") (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the

MEX HOLDINGS GUARANTEE

“**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself or Tranche B Agent or Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

12. Notices. All notices, requests and demands hereunder shall be in writing and:
 - (a) made to Agent at its address set forth above and to Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
 - (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
13. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
14. Entire Agreement. This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
15. Successors and Assigns. This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee as to such entity or as to any other guarantor.
16. Construction. All references to the term “**Guarantor**” wherever used herein shall mean Guarantor and its successors and assigns (including, without limitation, any receiver, trustee or custodian for Guarantor or of its assets or Guarantor in its capacity as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term

MEX HOLDINGS GUARANTEE

“**Agent**” wherever used herein shall mean Agent and its successors and assigns and all references to the term “**Borrowers**” or “**affiliates**” wherever used herein shall mean each Borrower and affiliate and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers or affiliates or any of their assets or Borrowers or affiliates in their capacities as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.

17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of any Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as a “Borrower” or “Guarantor” thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.
18. Acknowledgement. Guarantor acknowledges receipt of a copy of this Guarantee.
19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

MEX HOLDINGS GUARANTEE

IN WITNESS WHEREOF, Guarantor has executed and delivered this Amended and Restated Guarantee as of the day and year first above written.

ATTEST:

SMTC MEX HOLDINGS, INC.

By: _____

Title: _____

ATTEST:

By: _____

Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario
L3R 4N6
Fax: (905) 479-5326

MEX HOLDINGS GUARANTEE

AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

This Amended and Restated General Security Agreement (“**Agreement**”) dated August 3, 2007 is by SMTC Manufacturing Corporation of California, a California corporation, SMTC Manufacturing Corporation of Massachusetts, a Massachusetts corporation and SMTC Mex Holdings, Inc., a Delaware corporation (together with their respective successors and assigns are collectively, “**Debtors**”, individually, “**Debtor**”), in favor of Wachovia Capital Finance Corporation (Central), an Illinois corporation and successor in interest to Congress Financial Corporation (Central), as US Collateral Agent (together with its successors and assigns in such capacity, “**Secured Party**”) for itself, Canadian Agent (as hereinafter defined), the Tranche B Agent (as hereinafter defined) and the lenders from time to time party to the Canadian Loan Agreement (as hereinafter defined) and US Agent (as hereinafter defined), the Tranche B Agent (as hereinafter defined) and the lenders from time to time party to the US Loan Agreement (as hereinafter defined).

WITNESSETH:

WHEREAS Congress Financial Corporation (Canada) (“**Congress Canada**”) (predecessor to Canadian Agent) had entered into a loan agreement with Canadian Borrower (as hereinafter defined) dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Canadian Loan Agreement**”) pursuant to which Congress Canada made loans and provided other financial accommodations to Canadian Borrower;

WHEREAS Congress Financial Corporation (Central) (“**Congress Central**”) (predecessor to US Agent) had entered on behalf of itself and as agent into a loan agreement with US Borrowers (as hereinafter defined) dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original US Loan Agreement**”) pursuant to which Congress Central made loans and provided other financial accommodations to US Borrowers;

WHEREAS Debtors are affiliates of Canadian Borrower and as such have derived direct and indirect economic benefits from the making of the loans and other financial accommodations provided to Canadian Borrower pursuant to the Original Canadian Loan Agreement;

WHEREAS Debtors had executed and delivered a guarantee dated as of June 1, 2004 (the “**Original Canadian Guarantee**”) in favour of Congress Canada in respect of all obligations, liabilities and indebtedness of any kind, nature and description of Canadian Borrower and/or its affiliates to Congress Canada;

WHEREAS Debtors had executed and delivered a guarantee dated as of June 1, 2004 (the “**Original US Guarantee**”) in favour of Congress Central in respect of all obligations, liabilities and indebtedness of any kind, nature and description of US Borrowers and/or their affiliates to Congress Central;

US BORROWERS GSA

WHEREAS Debtors had executed and delivered a general security agreement dated as of June 1, 2004 (the “**Original GSA**”) in favour of Congress Central as collateral agent to secure obligations of the Debtors to Congress Canada and to Congress Central under the Original Canadian Guarantee, the Original US Guarantee, the Original Canadian Loan Agreement and the Original US Loan Agreement;

WHEREAS Canadian Borrower, Canadian Agent (as hereinafter defined), Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the “**Tranche B Agent**”) and the lenders that are from time to time party to the Canadian Loan Agreement (as hereinafter defined) (collectively, the “**Canadian Lenders**”) have agreed to amend and restate the Original Canadian Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Canadian Loan Agreement**”) and to amend and restate the Original Canadian Guarantee pursuant to an amended and restated guarantee dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Canadian Guarantee**”);

WHEREAS US Borrowers, US Agent (as hereinafter defined), Tranche B Agent and the lenders that are from time to time party to the US Loan Agreement (as hereinafter defined) (collectively, the “**US Lenders**”) have agreed to amend and restate the Original US Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**US Loan Agreement**”) and to amend and restate the Original US Guarantee pursuant to an amended and restated guarantee dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**US Guarantee**”); and

WHEREAS in order to induce Canadian Agent (as hereinafter defined), Tranche B Agent, US Agent (as hereinafter defined), Canadian Lenders and US Lenders (collectively, the “**Lenders**”) to enter into Canadian Loan Agreement and US Loan Agreement (collectively, the “**Loan Agreements**”) and the other Financing Agreements (as hereinafter defined) and to make the loans under the Loan Agreements, and as a condition precedent thereto, Canadian Agent, US Agent, Tranche B Agent and Lenders require that Debtors amend and restate the Original GSA and execute and deliver this Amended and Restated General Security Agreement (the “**Agreement**”) to secure the obligations of Debtors to Canadian Agent, US Agent, Tranche B Agent and Lenders under Canadian Guarantee and US Guarantee (collectively, the “**Guarantees**”).

US BORROWERS GSA

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

SECTION 1. DEFINITIONS

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

1.1 “**Accounts**” shall mean all present and future rights of a Debtor to payment of a monetary obligation, whether or not earned by performance, which is not evidenced by chattel paper or an instrument, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, (c) for a secondary obligation incurred or to be incurred, or (d) arising out of the use of a credit or charge card or information contained on or for use with the card.

1.2 “**Canadian Agent**” shall mean Wachovia Capital Finance Corporation (Canada), an Ontario corporation, as agent for itself, Tranche B Agent and Canadian Lenders, together with any of their successors and assigns.

1.3 “**Canadian Borrower**” shall mean SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada, an Ontario corporation, and its successors and assigns.

1.4 “**Canadian Lenders**” shall have the meaning set forth in the Recitals hereof.

1.5 “**Canadian Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.6 “**Collateral**” shall have the meaning set forth in Section 2.1 hereof.

1.7 “**Congress Canada**” shall have the meaning set forth in the Recitals hereof.

1.8 “**Congress Central**” shall have the meaning set forth in the Recitals hereof.

1.9 “**Equipment**” shall mean all of a Debtor’s now owned and hereafter acquired equipment, wherever located, including machinery, data processing and computer equipment and computer hardware and software, whether owned or licensed, and including embedded software, vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.10 “**Event of Default**” shall have the meaning set forth in Section 6.1 hereof.

1.11 “**Financing Agreements**” shall mean, collectively, the US Loan Agreement, the Canadian Loan Agreement, the US Guarantee, the Canadian Guarantee, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by US Borrowers, Canadian Borrower, a Debtor or any Obligor in connection with the US Loan Agreement or Canadian Loan Agreement as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

US BORROWERS GSA

1.12 **“Information Certificate”** shall mean the Information Certificate of each Debtor constituting Exhibit A hereto containing material information with respect to each Debtor, its business and assets provided by or on behalf of each Debtor to Secured Party in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

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

1.14 **“Inventory”** shall mean all of a Debtor’s now owned and hereafter existing or acquired goods, wherever located, which (a) are leased by a Debtor as lessor; (b) are held by a Debtor for sale or lease or to be furnished under a contract of service; (c) are furnished by a Debtor under a contract of service; or (d) consist of raw materials, work in process, finished goods or materials used or consumed in its business.

1.15 **“Lenders”** shall have the meaning set forth in the Recitals hereof.

1.16 **“Loan Agreements”** shall have the meaning set forth in the Recitals hereof.

1.17 **“Obligations”** shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by each Debtor to Secured Party, Tranche B Agent, Lenders and/or their respective affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, debtor or otherwise, whether arising under this Agreement, the Guarantees or any other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreements or after the commencement of any case with respect to a Debtor or any Obligor under the United States Bankruptcy Code, the *Bankruptcy and Insolvency Act* (Canada), the *Companies’ Creditors Arrangement Act* (Canada), or any similar statute in any jurisdiction (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Secured Party, Tranche B Agent, Lenders and/or their respective affiliates.

US BORROWERS GSA

1.18 “**Obligor**” shall mean any borrower, guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Debtors.

1.19 “**Original Canadian Guarantee**” shall have the meaning set forth in the Recitals hereof.

1.20 “**Original Canadian Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.21 “**Original GSA**” shall have the meaning set forth in the Recitals hereof.

1.22 “**Original Financing Agreements**” shall mean, collectively, the Original US Loan Agreement, the Original Canadian Loan Agreement, the Original US Guarantee, the Original Canadian Guarantee, the Original GSA and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by US Borrowers, Canadian Borrower, a Debtor or any Obligor in connection with the Original US Loan Agreement or Original Canadian Loan Agreement.

1.23 “**Original US Guarantee**” shall have the meaning set forth in the Recitals hereof.

1.24 “**Original US Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.25 “**Person**” or “**person**” shall mean any individual, sole proprietorship, partnership, corporation (including any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.26 “**Real Property**” shall mean all now owned and hereafter acquired real property of a Debtor, including leasehold interests, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located.

1.27 “**Receivables**” shall mean all of the following now owned or hereafter arising or acquired property of a Debtor: (a) all Accounts; (b) all interest, fees, late charges, penalties, collection fees and other amounts due or to become due or otherwise payable in connection with any Account; (c) all payment intangibles of a Debtor and other contract rights, chattel paper, instruments, notes, and other forms of obligations owing to a Debtor, whether from the sale and lease of goods or other property, licensing of any property (including Intellectual Property or other general intangibles), rendition of services or from loans or advances by a Debtor or to or for the benefit of any third person (including loans or advances to any affiliates or subsidiaries of a Debtor) or otherwise associated with any Accounts, Inventory or general intangibles of a Debtor (including, without limitation, choses in action, causes of action, tax refunds, tax refund claims, any funds which may become payable to a Debtor in connection with the termination of any employee benefit plan and any other amounts payable to a Debtor from any employee benefit plan, rights and claims against carriers and shippers, rights to indemnification, business interruption insurance and proceeds thereof, casualty or any similar types of insurance and any proceeds thereof and proceeds of insurance covering the lives of employees on which a Debtor is a beneficiary).

US BORROWERS GSA

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

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

1.30 “**US Lenders**” shall mean Wachovia Capital Finance Corporation (Central), an Illinois corporation, on behalf of itself, Tranche B Agent and US Lenders, together with any of their successors and assigns.

1.31 “**US Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

SECTION 2. GRANT OF SECURITY INTEREST

2.1 Grant of Security Interest. To secure payment and performance of all Obligations, each Debtor hereby grants to Secured Party, for itself and the ratable benefit of Tranche B Agent and Lenders, a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Secured Party for itself and for the ratable benefit of Tranche B Agent and Lenders as security, all personal and real property and fixtures and interests in property and fixtures of such Debtor, whether now owned or hereafter acquired or existing, and wherever located (together with all other collateral security for the Obligations at any time granted to or held or acquired by Secured Party, Tranche B Agent or any Lender, collectively, the “**Collateral**”), including:

- (a) all Accounts;
- (b) all general intangibles, including, without limitation, all Intellectual Property;
- (c) all goods, including, without limitation, Inventory and Equipment;
- (d) all Real Property and fixtures;
- (e) all chattel paper (including all tangible and electronic chattel paper);
- (f) all instruments (including all promissory notes);
- (g) all documents;

US BORROWERS GSA

(h) all deposit accounts;

(i) all letters of credit, banker's acceptances and similar instruments and including all letter-of-credit rights;

(j) all supporting obligations and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Receivables and other Collateral, including (i) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral, (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Receivables or other Collateral, including returned, repossessed and reclaimed goods, and (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;

(k) all (i) investment property (including securities, whether certificated or uncertificated, securities accounts, security entitlements, commodity contracts or commodity accounts) and (ii) monies, credit balances, deposits and other property of such Debtor now or hereafter held or received by or in transit to Secured Party or its affiliates or at any other depository or other institution from or for the account of such Debtor, whether for safekeeping, pledge, custody, transmission, collection or otherwise;

(l) all commercial tort claims, including, without limitation, those identified in its Information Certificate;

(m) to the extent not otherwise described above, all Receivables;

(n) all Records; and

(o) all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims against third parties for loss or damage to or destruction of or other involuntary conversion of any kind or nature of any or all of the other Collateral.

2.2 Perfection of Security Interests.

(a) Each Debtor irrevocably and unconditionally authorizes Secured Party (or its agent) to file at any time and from time to time such financing statements in the United States of America with respect to the Collateral naming Secured Party or its designee as the secured party and such Debtor as debtor, as Secured Party may require, and including any other information with respect to such Debtor or otherwise required by Section 5 of Article 9 of the Uniform Commercial Code of such jurisdiction as Secured Party may determine, together with any amendment and continuations with respect thereto, which authorization shall apply to all financing statements filed on, prior to or after the date hereof. Each Debtor hereby ratifies and approves all financing statements naming Secured Party or its designee as secured party and such Debtor as debtor with respect to the Collateral (and any amendments with respect to such financing statements) filed by or on behalf of Secured Party prior to the date hereof and ratifies and confirms the authorization of Secured Party to file such financing statements (and amendments, if any). Each Debtor hereby authorizes Secured Party to adopt on behalf of such Debtor any symbol required for authenticating any electronic filing. In the event that the

US BORROWERS GSA

description of the collateral in any financing statement naming Secured Party or its designee as the secured party and a Debtor as debtor includes assets and properties of a Debtor that do not at any time constitute Collateral, whether hereunder, under any of the other Financing Agreements or otherwise, the filing of such financing statement shall nonetheless be deemed authorized by such Debtor to the extent of the Collateral included in such description and it shall not render the financing statement ineffective as to any of the Collateral or otherwise affect the financing statement as it applies to any of the Collateral. In no event shall a Debtor at any time file, or permit or cause to be filed, any correction statement or termination statement with respect to any financing statement (or amendment or continuation with respect thereto) naming Secured Party or its designee as secured party and such Debtor as debtor.

(b) Each Debtor does not have any chattel paper (whether tangible or electronic) or instruments located in the United States of America as of the date hereof, except as set forth in its Information Certificate. In the event that a Debtor shall be entitled to or shall receive any chattel paper or instrument after the date hereof that is or will be located in the United States of America, such Debtor shall promptly notify Secured Party thereof in writing. Promptly upon the receipt thereof by or on behalf of a Debtor (including by any agent or representative), such Debtor shall deliver, or cause to be delivered to Secured Party, all tangible chattel paper and instruments that such Debtor has or may at any time acquire, accompanied by such instruments of transfer or assignment duly executed in blank as Secured Party may from time to time specify, in each case except as Secured Party may otherwise agree. At Secured Party's option, each Debtor shall, or Secured Party may at any time on behalf of such Debtor, cause the original of any such instrument or chattel paper to be conspicuously marked in a form and manner acceptable to Secured Party with the following legend referring to chattel paper or instruments as applicable: "This [chattel paper][instrument] is subject to the security interest of Wachovia Capital Finance Corporation (Central), as Agent, and any sale, transfer, assignment or encumbrance of this [chattel paper][instrument] violates the rights of such secured party."

(c) In the event that a Debtor shall at any time hold or acquire an interest in any electronic chattel paper or any "transferable record" (as such term is defined in Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction), such Debtor shall promptly notify Secured Party thereof in writing. Promptly upon Secured Party's request, each Debtor shall take, or cause to be taken, such actions as Secured Party may reasonably request to give Secured Party control of such electronic chattel paper under Section 9-105 of the UCC and control of such transferable record under Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as in effect in such jurisdiction.

(d) Each Debtor does not have any deposit accounts as of the date hereof, except as set forth in its Information Certificate. Each Debtor shall not, directly or indirectly, after the date hereof open, establish or maintain any deposit account that is maintained or located in the United States of America unless each of the following conditions is satisfied: (i) Secured Party shall have received not less than five (5) business days prior written notice of the intention of such Debtor to open or establish such account which notice shall specify in reasonable detail and specificity acceptable to Secured Party the name of the account, the owner of the account, the name and address of the bank at which such account is to be opened or established, the individual at such bank with whom such Debtor is dealing and the purpose of the account, (ii) the

US BORROWERS GSA

bank where such account is opened or maintained shall be acceptable to Secured Party, and (iii) on or before the opening of such deposit account, such Debtor shall as Secured Party may specify either (A) deliver to Secured Party a Deposit Account Control Agreement with respect to such deposit account, in form and substance satisfactory to Secured Party and Tranche B Agent, duly authorized, executed and delivered by such Debtor and the bank at which such deposit account is opened and maintained or (B) arrange for Secured Party to become the customer of the bank with respect to the deposit account on terms and conditions acceptable to Secured Party. The terms of this subsection (d) shall not apply to deposit accounts specifically and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of a Debtor's salaried employees.

(e) Each Debtor does not own or hold, directly or indirectly, beneficially or as record owner or both, any investment property, as of the date hereof, or have any investment account, securities account, commodity account or other similar account with any bank or other financial institution or other securities intermediary or commodity intermediary as of the date hereof, in each case except as set forth in its Information Certificate.

(i) In the event that a Debtor shall be entitled to or shall at any time after the date hereof hold or acquire any certificated securities, such Debtor shall promptly endorse, assign and deliver the same to Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as Secured Party may from time to time specify. If any securities, now or hereafter acquired by a Debtor are uncertificated and are issued to such Debtor or its nominee directly by the issuer thereof, such Debtor shall immediately notify Secured Party thereof and shall as Secured Party may specify, either (A) cause the issuer to agree to comply with instructions from Secured Party as to such securities, without further consent of such Debtor or such nominee, or (B) arrange for Secured Party to become the registered owner of the securities.

(ii) Each Debtor shall not, directly or indirectly, after the date hereof open, establish or maintain any investment account, securities account, commodity account or any other similar account (other than a deposit account) with any securities intermediary or commodity intermediary where such intermediary's jurisdiction is located in the United States of America unless each of the following conditions is satisfied: (A) Secured Party shall have received not less than five (5) Business days prior written notice of the intention of such Debtor to open or establish such account which notice shall specify in reasonable detail and specificity acceptable to Secured Party the name of the account, the owner of the account, the name and address of the securities intermediary or commodity intermediary at which such account is to be opened or established, the individual at such intermediary with whom such Debtor is dealing and the purpose of the account, (B) the securities intermediary or commodity intermediary (as the case may be) where such account is opened or maintained shall be acceptable to Secured Party, and (C) on or before the opening of such investment account, securities account or other similar account with a securities intermediary or commodity intermediary, such Debtor shall as Secured Party may specify either (1) execute and deliver, and cause to be executed and delivered to Secured Party, an Investment Property Control Agreement with respect thereto, in form and substance satisfactory to Secured Party, duly authorized, executed and delivered by such Debtor and such securities intermediary or commodity intermediary or (2) arrange for Secured Party to become the entitlement holder with respect to such investment property on terms and conditions acceptable to Secured Party.

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(f) As of the date hereof, each Debtor is not the beneficiary or otherwise entitled to any right to payment under any letter of credit, banker's acceptance or similar instrument where the law governing the perfection of a security interest therein is the law of a State in the United States of America, except as set forth in its Information Certificate. In the event that a Debtor shall be entitled to or shall receive any right to payment under any letter of credit, banker's acceptance or any similar instrument where the law governing the perfection of a security interest therein is the law of a State in the United States of America, whether as beneficiary thereof or otherwise after the date hereof, such Debtor shall promptly notify Secured Party thereof in writing. Such Debtor shall immediately, as Secured Party may specify, either (i) deliver, or cause to be delivered to Secured Party, with respect to any such letter of credit, banker's acceptance or similar instrument, the written agreement of the issuer and any other nominated person obligated to make any payment in respect thereof (including any confirming or negotiating bank), in form and substance satisfactory to Secured Party, consenting to the assignment of the proceeds of the letter of credit to Secured Party by such Debtor and agreeing to make all payments thereon directly to Secured Party or as Secured Party may otherwise direct or (ii) cause Secured Party to become, at such Debtor's expense, the transferee beneficiary of the letter of credit, banker's acceptance or similar instrument (as the case may be).

(g) Each Debtor has no commercial tort claims as of the date hereof, except as set forth in its Information Certificate. In the event that a Debtor shall at any time after the date hereof have any commercial tort claims, such Debtor shall promptly notify Secured Party thereof in writing, which notice shall (i) set forth in reasonable detail the basis for and nature of such commercial tort claim and (ii) include the express grant by such Debtor to Secured Party of a security interest in such commercial tort claim (and the proceeds thereof). In the event that such notice does not include such grant of a security interest, the sending thereof by such Debtor to Secured Party shall be deemed to constitute such grant to Secured Party. Upon the sending of such notice, any commercial tort claim described therein shall constitute part of the Collateral and shall be deemed included therein. Without limiting the authorization of Secured Party provided in Section 5.2(a) hereof or otherwise arising by the execution by a Debtor of this Agreement or any of the other Financing Agreements, Secured Party is hereby irrevocably authorized from time to time and at any time to file such financing statements naming Secured Party or its designee as secured party and such Debtor as debtor, or any amendments to any financing statements, covering any such commercial tort claim as Collateral. In addition, each Debtor shall promptly upon Secured Party's request, execute and deliver, or cause to be executed and delivered, to Secured Party such other agreements, documents and instruments as Secured Party may require in connection with such commercial tort claim.

(h) As of the date hereof, each Debtor does not have any goods, documents of title or other Collateral in the custody, control or possession of a third party where the law governing the perfection of a security interest therein is the law of a State in the United States of America, except as set forth in its Information Certificate and except for goods located in the United States in transit to a location of a Debtor permitted in the Financing Agreements in the ordinary course of business of such Debtor in the possession of the carrier transporting such goods. In the event that any goods, documents of title or other Collateral are at any time after the date hereof in the custody, control or possession of any other person not referred to in the Information Certificate or such carriers and the law governing the perfection of a security interest therein is the law of a State of the United States of America, each Debtor shall promptly notify Secured Party thereof in writing. Promptly upon Secured Party's request, each Debtor shall deliver to Secured Party a Collateral Access Agreement, in form and substance satisfactory to Secured Party, duly authorized, executed and delivered by such person and applicable Debtor.

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(i) Each Debtor shall take any other actions reasonably requested by Secured Party from time to time to cause the attachment, perfection and first priority of, and the ability of Secured Party to enforce, the security interest of Secured Party in any and all of the Collateral, including, without limitation, (i) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the UCC or other applicable law, to the extent, if any, that a Debtor's signature thereon is required therefor, (ii) causing Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party in such Collateral, (iii) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party in such Collateral, (iv) obtaining the consents and approvals of any governmental authority or third party, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, and taking all actions required by any earlier versions of the UCC or by other law, as applicable in any relevant jurisdiction.

SECTION 3. COLLATERAL COVENANTS

3.1 Inventory Covenants. With respect to the Inventory: (a) each Debtor shall not remove any Inventory from the locations permitted in the Finance Agreements, without the prior written consent of Secured Party, except for sales of Inventory in the ordinary course of a Debtor's business and except to move Inventory directly from one location set forth or permitted therein to another such location; and (b) each Debtor shall not, without prior written notice to Secured Party, acquire or accept any Inventory on consignment or approval where such Inventory is located in the United States of America.

3.2 Equipment Covenants. With respect to the Equipment: (a) each Debtor shall not remove any Equipment from the locations or permitted in the Financing Agreements, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of a Debtor or to move Equipment directly from one location permitted therein to another such location and except for the movement of motor vehicles used by or for the benefit of a Debtor in the ordinary course of business; and (b) the Equipment located in the United States of America is now and shall remain personal property and each Debtor shall not permit any of such Equipment to be or become a part of or affixed to real property.

3.3 Power of Attorney. Each Debtor hereby irrevocably designates and appoints Secured Party (and all persons designated by Secured Party) for itself and the ratable benefit of Tranche B Agent and Lenders as such Debtor's true and lawful attorney-in-fact, and authorizes Secured Party, in such Debtor's or Secured Party's name, to: (a) at any time an Event of Default exists or has occurred and is continuing (i) demand payment on Receivables or other Collateral, (ii) enforce payment of Receivables by legal proceedings or otherwise, (iii) exercise all of such Debtor's rights and remedies to collect any Receivable or other Collateral, (iv) sell or assign any Receivable upon such terms, for such amount and at such time or times as the Secured Party deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Receivable, (vii) prepare, file

US BORROWERS GSA

and sign such Debtor's name on any proof of claim in bankruptcy or other similar document against an account debtor or other obligor in respect of any Receivables or other Collateral, (viii) notify the post office authorities to change the address for delivery of remittances from account debtors or other obligors in respect of Receivables or other proceeds of Collateral to an address designated by Secured Party, and open and dispose of all mail addressed to such Debtor and handle and store all mail relating to the Collateral; and (ix) do all acts and things which are necessary, in Secured Party's determination, to fulfill such Debtor's obligations under this Agreement and the other Financing Agreements and (b) at any time to (i) take control in any manner of any item of payment in respect of Receivables or constituting Collateral or otherwise received in or for deposit in any deposit accounts maintained by such Debtor or otherwise received by Secured Party, (ii) have access to any lockbox or postal box into which remittances from account debtors or other obligors in respect of Receivables or other proceeds of Collateral are sent or received, (iii) endorse such Debtor's name upon any items of payment in respect of Receivables or constituting Collateral or otherwise received by Secured Party and deposit the same in Secured Party's account for application to the Obligations, (iv) endorse such Debtor's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Receivable or any goods pertaining thereto or any other Collateral, including any warehouse or other receipts, or bills of lading and other negotiable or non-negotiable documents, and (v) sign such Debtor's name on any verification of Receivables and notices thereof to account debtors or any secondary obligors or other obligors in respect thereof. Each Debtor hereby releases Secured Party, Tranche B Agent, Lenders and their respective officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Secured Party's, Tranche B Agents or any Lender's own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

3.4 Right to Cure. Secured Party may, at its option, (a) upon notice to each Debtor, cure any default by such Debtor under any material agreement with a third party that affects the Collateral, its value or the ability of Secured Party to collect, sell or otherwise dispose of the Collateral or the rights and remedies of Secured Party therein, for itself and the benefit of Tranche B Agent and Lenders, or the ability of such Debtor to perform its obligations hereunder or under the other Financing Agreements, (b) pay or bond on appeal any judgment entered against such Debtor, (c) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (d) pay any amount, incur any expense or perform any act which, in Secured Party's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Secured Party, Tranche B Agent and Lenders with respect thereto. Secured Party may add any amounts so expended to the Obligations and charge such Debtor's account therefor, such amounts to be repayable by each Debtor on demand. Neither Secured Party, Tranche B Agent nor any Lender shall be under any obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of any Debtor. Any payment made or other action taken by Secured Party under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

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

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Debtor hereby represents and warrants to Secured Party, Tranche B Agent and Lenders the following (which shall survive the execution and delivery of this Agreement):

4.1 Corporate Existence; Power and Authority. It is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or business or the rights of Secured Party, Tranche B Agent and Lenders in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder (a) are all within its corporate powers, (b) have been duly authorized, (c) are not in contravention of law or the terms of its certificate of incorporation, by laws, or other organizational documentation, or any indenture, agreement or undertaking to which it is a party or by which it or its property are bound and (d) will not result in the creation or imposition of, or require or give rise to any obligation to grant, any lien, security interest, charge or other encumbrance upon any of its property, except for the security interest in favor of Secured Party, for itself and the benefit of Tranche B Agent and Lenders, as provided herein. This Agreement and the other Financing Agreements constitute its legal, valid and binding obligations enforceable in accordance with their respective terms.

4.2 Name; State of Organization; Chief Executive Office; Collateral Locations.

(a) Its exact legal name is as set forth on the signature page of this Agreement and in its Information Certificate. It has not, during the past five years, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in its Information Certificate.

(b) It is an organization of the type and organized in the jurisdiction set forth in its Information Certificate. The Information Certificate accurately sets forth its organizational identification number or accurately states that it has none and accurately sets forth its federal employer identification number.

US BORROWERS GSA

(c) Its chief executive office and mailing address of its Records concerning Accounts are located only at the address identified as such in its Information Certificate and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth as such in its Information Certificate, subject to its right to establish new locations in accordance with Section 5.2 below. Its Information Certificate correctly identifies any of such locations which are not owned by it and sets forth the owners and/or operators thereof.

4.3 Priority of Liens; Title to Properties. The security interests and liens granted to Secured Party, for itself and the benefit of Tranche B Agent and Lenders, under this Agreement constitute valid and perfected first priority liens and security interests in and upon the Collateral in which a security interest is perfected by filing a financing statement under the Uniform Commercial Code.

4.4 Accuracy and Completeness of Information. All information furnished by or on behalf of it in writing to Secured Party in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on its Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on its business, assets or prospects, which has not been fully and accurately disclosed to Secured Party in writing.

4.5 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Secured Party, Tranche B Agent and Lenders on the date of each additional borrowing or other credit accommodation under the Loan Agreements and shall be conclusively presumed to have been relied on by Secured Party, Tranche B Agent and Lenders regardless of any investigation made or information possessed by Secured Party, Tranche B Agent and Lenders. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Debtors shall now or hereafter give, or cause to be given, to Secured Party, Tranche B Agent and Lenders.

SECTION 5. AFFIRMATIVE AND NEGATIVE COVENANTS

5.1 Maintenance of Existence.

(a) Each Debtor shall at all times preserve, renew and keep in full force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted.

(b) Each Debtor shall not change its name unless each of the following conditions is satisfied: (i) Secured Party shall have received not less than thirty (30) days prior written notice from applicable Debtor of such proposed change in its corporate name, which

US BORROWERS GSA

notice shall accurately set forth the new name; and (ii) Secured Party shall have received a copy of the amendment to the Certificate of Incorporation of such Debtor providing for the name change certified by the Secretary of State of the jurisdiction of incorporation or organization of such Debtor as soon as it is available.

(c) Each Debtor shall not change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall not acquire one) unless Secured Party shall have received not less than thirty (30) days' prior written notice from applicable Debtor of such proposed change, which notice shall set forth such information with respect thereto as Secured Party may require and Secured Party shall have received such agreements as Secured Party may reasonably require in connection therewith. Each Debtor shall not change its type of organization, jurisdiction of organization or other legal structure.

5.2 New Collateral Locations. Each Debtor may only open any new location within the continental United States provided such Debtor (a) gives Secured Party thirty (30) days prior written notice from such Debtor of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Secured Party such agreements, documents, and instruments as Secured Party may deem necessary or desirable to protect its interests in the Collateral at such location.

5.3 Insurance. Each Debtor shall at all times maintain insurance with respect to its business and the Collateral as required by the US Loan Agreement.

5.4 Costs and Expenses. Each Debtor shall pay to Secured Party on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Secured Party's, Tranche B Agent's and Lenders' rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) insurance premiums, appraisal fees and search fees; (c) costs and expenses of preserving and protecting the Collateral; (d) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Secured Party, for itself and the benefit of Tranche B Agent and Lenders, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Secured Party, Tranche B Agent and Lenders arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); and (e) the fees and disbursements of counsel (including legal assistants) to Secured Party, Tranche B Agent and Lenders in connection with any of the foregoing.

5.5 Further Assurances. At the request of Secured Party at any time and from time to time, each Debtor shall, at its expense, at any time or times duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to

US BORROWERS GSA

evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements.

SECTION 6. EVENTS OF DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence or existence of any Event of Default under the Loan Agreements is referred to herein individually as an "Event of Default", and collectively as "Events of Default".

6.2 Remedies.

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

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Secured Party may, for itself and the ratable benefit of the Tranche B Agent and Lenders and subject to the terms of the Loan Agreements, in its discretion and, without limitation, (i) accelerate the payment of all Obligations and demand immediate payment thereof to Secured Party (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h) of the Loan Agreements, all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require a Debtor, at such Debtor's expense, to assemble and make available to Secured Party any part or all of the Collateral at any place and time designated by Secured Party, (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, and/or (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Secured Party or elsewhere) at such prices or terms as Secured Party may deem reasonable, for cash, upon credit or for future delivery, with the Secured Party having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of any Debtor, which right or equity of redemption is hereby expressly waived and released by such Debtor. If any of the Collateral is sold or leased by Secured Party upon credit terms or for future delivery,

US BORROWERS GSA

the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Secured Party. If notice of disposition of Collateral is required by law, ten (10) days prior notice by Secured Party to a Debtor designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and each Debtor waives any other notice. In the event Secured Party institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, each Debtor waives the posting of any bond which might otherwise be required.

(c) Secured Party may, at any time or times that an Event of Default exists or has occurred and is continuing, enforce any Debtor's rights against any account debtor, secondary obligor or other obligor in respect of any of the Accounts or other Receivables. Without limiting the generality of the foregoing, Secured Party may at such time or times (i) notify any or all account debtors, secondary obligors or other obligors in respect thereof that the Receivables have been assigned to Secured Party and that Secured Party has a security interest therein and Secured Party may direct any or all account debtors, secondary obligors and other obligors to make payment of Receivables directly to Secured Party, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Receivables or other obligations included in the Collateral and thereby discharge or release the account debtor or any secondary obligors or other obligors in respect thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any Receivables or such other obligations, but without any duty to do so, and Secured Party shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (iv) take whatever other action Secured Party may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Secured Party's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Secured Party and are payable directly and only to Secured Party and each Debtor shall deliver to Secured Party such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Secured Party may require. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, applicable Debtor shall, upon Secured Party's request, hold the returned Inventory in trust for Secured Party, segregate all returned Inventory from all of its other property, dispose of the returned Inventory solely according to Secured Party's instructions, and not issue any credits, discounts or allowances with respect thereto without Secured Party's prior written consent.

(d) To the extent that applicable law imposes duties on Secured Party to exercise remedies in a commercially reasonable manner (which duties cannot be waived under such law), each Debtor acknowledges and agrees that it is not commercially unreasonable for Secured Party (i) to fail to incur expenses reasonably deemed significant by Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain consents of any governmental authority or other third party for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against account debtors, secondary obligors or other persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (iv) to exercise collection remedies against account

US BORROWERS GSA

debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other persons, whether or not in the same business as a Debtor for expressions of interest in acquiring all or any portion of the Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, (xi) to purchase insurance or credit enhancements to insure Secured Party against risks of loss, collection or disposition of Collateral or to provide to Secured Party a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Secured Party in the collection or disposition of any of the Collateral. Each Debtor acknowledges that the purpose of this Section is to provide non-exhaustive indications of what actions or omissions by Secured Party would not be commercially unreasonable in Secured Party's exercise of remedies against the Collateral and that other actions or omissions by Secured Party shall not be deemed commercially unreasonable solely on account of not being indicated in this Section. Without limitation of the foregoing, nothing contained in this Section shall be construed to grant any rights to a Debtor or to impose any duties on Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section.

(e) For the purpose of enabling Secured Party to exercise the rights and remedies hereunder, each Debtor hereby grants to Secured Party, Tranche B Agent and Lenders an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to any Debtor) to use, assign, license or sublicense any of the trademarks, service-marks, trade names, business names, trade styles, designs, logos and other source of business identifiers and other Intellectual Property and general intangibles now owned or hereafter acquired by any Debtor, wherever the same maybe located, including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout thereof.

(f) Secured Party shall apply the cash proceeds of Collateral actually received by Secured Party from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in accordance with the Loan Agreements. Each Debtor shall remain liable to Secured Party, Tranche B Agent and Lenders for the payment of any deficiency with interest at the highest rate provided for in the Loan Agreements and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

SECTION 7. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

7.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would cause the application of the law of any jurisdiction other than the laws of the State of Illinois.

US BORROWERS GSA

(b) Each Debtor and Secured Party irrevocably consent and submit to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois whichever Secured Party may elect, and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Secured Party shall have the right to bring any action or proceeding against any Debtor or its property in the courts of any other jurisdiction which Secured Party deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against any Debtor or its property).

(c) Each Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Secured Party's option, by service upon a Debtor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Secured Party against Debtor for the amount of the claim and other relief requested.

(d) EACH DEBTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF A DEBTOR AND SECURED PARTY IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH DEBTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT A DEBTOR OR SECURED PARTY MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH DEBTOR AND SECURED PARTY TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Secured Party shall not have any liability to any Debtor (whether in tort, contract, equity or otherwise) for losses suffered by a Debtor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Secured Party that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation,

US BORROWERS GSA

Secured Party shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement and the other Financing Agreements.

7.2 Waiver of Notices. Each Debtor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on a Debtor which Secured Party may elect to give shall entitle any Debtor to any other or further notice or demand in the same, similar or other circumstances.

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

7.4 Waiver of Counterclaims. Each Debtor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

(a) Indemnification. Each Debtor shall indemnify and hold Secured Party, Tranche B Agent and Lenders, and their respective directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, each Debtor shall pay the maximum portion which it is permitted to pay under applicable law to Secured Party in satisfaction of indemnified matters under this Section. To the extent permitted by applicable law, each Debtor shall not assert, and each Debtor hereby waives, any claim against Secured Party, Tranche B Agent and any Lender, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any of the other Financing Agreements or any undertaking or transaction contemplated hereby. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of the Loan Agreements.

US BORROWERS GSA

SECTION 8. MISCELLANEOUS

8.1 Interpretative Provisions.

(a) All terms used herein which are defined in Article 1 or Article 9 of the UCC shall have the meanings given therein unless otherwise defined in this Agreement.

(b) All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires.

(c) All references to a Debtor and Secured Party pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns.

(d) The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(e) The word “including” when used in this Agreement shall mean “including, without limitation”.

(f) All references to the term “good faith” used herein when applicable to Secured Party shall mean, notwithstanding anything to the contrary contained herein or in the UCC, honesty in fact in the conduct or transaction concerned. Each Debtor shall have the burden of proving any lack of good faith on the part of Secured Party alleged by Debtor at any time.

(g) An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 7.3 or is cured in a manner satisfactory to Secured Party, if such Event of Default is capable of being cured as determined by Secured Party.

(h) Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the financial statements of each Debtor most recently received by Secured Party prior to the date hereof.

(i) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”, the words “to” and “until” each mean “to but excluding” and the word “through” means “to and including”.

(j) Unless otherwise expressly provided herein, (i) references herein to any agreement, document or instrument shall be deemed to include all subsequent amendments,

US BORROWERS GSA

modifications, supplements, extensions, renewals, restatements or replacements with respect thereto, but only to the extent the same are not prohibited by the terms hereof or of any other Financing Agreement, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, recodifying, supplementing or interpreting the statute or regulation.

(k) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(l) This Agreement and other Financing Agreements may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(m) This Agreement and the other Financing Agreements are the result of negotiations among and have been reviewed by counsel to Secured Party and the other parties, and are the products of all parties. Accordingly, this Agreement and the other Financing Agreements shall not be construed against Secured Party merely because of Secured Party's involvement in their preparation.

8.2 Notices. All notices, requests and demands hereunder shall be in writing and deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail, return receipt requested, five (5) days after mailing. All notices, requests and demands upon the parties are to be given to the following addresses (or to such other address as any party may designate by notice in accordance with this Section):

If to Debtors:	635 Hood Road Markham, Ontario L3R 4N6 Attention: Chief Financial Officer Telephone No.: 905.479.1810 Telecopy No.: 905.479.5326
If to Secured Party:	Wachovia Capital Finance Corporation (Central), as Secured Party 150 South Wacker Drive Suite 2200 Chicago, Illinois 60606 United States Attention: Portfolio Manager Telephone No.: 312.332.0420 Telecopy No.: 312.332.0424
with a copy to:	Wachovia Capital Finance Corporation (Canada) 141 Adelaide Street West Suite 1500 Toronto, Ontario, M5H 3L9 Attention: Portfolio Manager Telephone No.: 416.364.6080 Telecopy No.: 416.364.6068

US BORROWERS GSA

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

8.4 No Novation. This Agreement does not discharge or release the obligations under the Original US Loan Agreement, the Original Canadian Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreements) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original US Loan Agreement, the Original Canadian Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of any Borrower or any Obligor under the Original Financing Agreements from any of its obligations and liabilities as a "Borrower" or "Obligor" thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to "the Original Loan Agreement," "thereto," "thereof," "thereunder" or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Secured Party a security interest in or Lien (as such term is defined in the Loan Agreements) on, any collateral as security for the obligations of the Borrower or any Obligors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreements) is hereby ratified and confirmed in all respects.

8.5 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon each Debtor and its successors and assigns and inure to the benefit of and be enforceable by Secured Party and its successors and assigns, except that each Debtor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Secured Party.

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

US BORROWERS GSA

IN WITNESS WHEREOF, each Debtor has caused these presents to be duly executed as of the day and year first above written.

SMTC MANUFACTURING CORPORATION OF CALIFORNIA

Per: _____
Name:
Title:

Per: _____
Name:
Title:

SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS

Per: _____
Name:
Title:

Per: _____
Name:
Title:

SMTC MEX HOLDINGS, INC.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

US BORROWERS GSA

Exhibit A
Information Certificates

US BORROWERS GSA

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Central), as Agent
150 South Wacker Drive, Suite 2200
Chicago, Illinois 60606

Re: SMTC Manufacturing Corporation of Massachusetts, SMTC Manufacturing Corporation of California and SMTC Mex Holdings, Inc. (individually, a "Borrower" and collectively, the "Borrowers")

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Central) ("**Congress**") (predecessor to Wachovia Capital Finance Corporation (Central) ("**Wachovia**")) individually and as collateral agent has entered into certain financing arrangements with Borrowers and affiliates of Borrowers pursuant to which Congress made loans and provided other financial accommodations to Borrowers and their affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the "**Original Loan Agreement**") and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the "**Original Guarantee**") (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the "**Original Financing Agreements**");

WHEREAS Borrowers have requested that Wachovia (in such capacity, together with any successors and assigns if any, the "**Agent**") for and on behalf of itself and as agent for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the "**Tranche B Agent**") and the lenders from time to time party to the Loan Agreement (as hereinafter defined) (collectively, the "**Lenders**") amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the "**Loan Agreement**") and Borrowers, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the "**Financing Agreements**"); and

Due to the close business and financial relationships between Borrowers and each of the undersigned (individually, a "**Guarantor**" and collectively, the "**Guarantors**"), in consideration of the benefits which will accrue to each Guarantor and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing

US OBLIGORS GUARANTEE

other financial accommodations to Borrowers and their affiliates pursuant to the Loan Agreement and other Financing Agreements, each Guarantor hereby agrees to amend and restate the Original Guarantee and to jointly and severally provide this Amended and Restated Guarantee (the “**Guarantee**”) as follows:

1. Guarantee

- (a) Each Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of each Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to a Borrower and/or its affiliates under the United States Bankruptcy Code or any similar statute in any jurisdiction (the “**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of a Borrower and its affiliates or their respective successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of each Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent, Tranche B Agent and Lenders directly or indirectly arising out of or related to the relationships between Borrowers and their affiliates, any Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement or other Financing

US OBLIGORS GUARANTEE

Agreements or after the commencement of any case with respect to Borrowers and/or their affiliates or any Guarantor under the Insolvency Legislation.

- (b) This Guarantee is a guaranty of payment and not of collection. Each Guarantor agrees that Agent for itself, Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrowers and/or their affiliates, any other Guarantor or any other Obligor or to realize upon any collateral, but may require any Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent or Lenders with respect thereto or otherwise chargeable to Borrowers and their affiliates or Guarantors) and in accordance with the Loan Agreement.
- (c) Payment by a Guarantor shall be made to Agent, for itself, Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Each Guarantor shall make all payments to Agent for itself, Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against any Guarantor either in the same action in which a Borrower or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against any Guarantor, each Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to any Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrowers and their affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrowers and/or their affiliates or any Guarantor is entitled are hereby waived by each Guarantor. Each of the Guarantors also waives notice of and hereby consents to:
 - (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;

US OBLIGORS GUARANTEE

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- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of Borrowers and/or their affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);
 - (iii) the exercise of, or refraining from the exercise of any rights against a Borrower and/or its affiliates, any Guarantor or any other Obligor or any collateral;
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations. Each Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of each Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing; and
 - (v) any Financing by Agent or Lenders of Borrowers under Section 364 of the United Bankruptcy Code or consent to the use of cash collateral by Agent under Section 363 of the United States Bankruptcy Code.
- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of a Borrower or its affiliates in respect of any of the Guaranteed Obligations, or any Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of each Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to a Borrower or its affiliates under any Insolvency Legislation, each Guarantor shall be liable therefor, even if a Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Each Guarantor acknowledges that Agent has not made any representations to any Guarantor with respect to Borrowers and/or their affiliates, any other Obligor or otherwise in connection with the execution and delivery by each Guarantor of this Guarantee and each Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Each Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrowers and their affiliates, any collateral for the Guaranteed Obligations or

US OBLIGORS GUARANTEE

other assets of Borrowers and their affiliates or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself and the benefit of Tranche B Agent and the Lenders by each Guarantor hereunder and each Guarantor hereby further irrevocably and unconditionally waives and relinquishes any and all other benefits which a Guarantor might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from such Guarantor, Borrowers and/or their or any other Obligor upon the Guaranteed Obligations or realized from their property.

- (d) Notwithstanding anything to the contrary contained herein, the amount of the obligations payable by each Guarantor under this Guarantee shall be the aggregate amount of the Guaranteed Obligations unless a court of competent jurisdiction adjudicates Guarantor's obligations to be invalid, avoidable or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers), in which case the amount of the Guaranteed Obligations payable by each Guarantor hereunder shall be limited to the maximum amount that could be guaranteed by each Guarantor without rendering such Guarantor's obligations under this Guarantee invalid, avoidable or unenforceable under such applicable law.
3. Subordination. Payment of all amounts now or hereafter owed to each Guarantor by a Borrower or its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, Tranche B Agent and Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of each Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of a Borrower or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
5. Account Stated. The books and records of Agent showing the account between Agent and Borrowers shall be admissible in evidence in any action or proceeding against or involving a Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to a Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to such Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and such Borrower and be binding on Guarantors.
6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. A Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from such Guarantor sent to Agent at its address set forth above by certified mail (return receipt requested) and thereafter as

US OBLIGORS GUARANTEE

set forth below. Revocation or termination hereof by a Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of such Guarantor under this Guarantee with respect to:

- (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
 - (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);
 - (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against a Borrower or its affiliates, any Guarantor or any other Obligor (whether or not suit be brought); or
 - (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by any Guarantor shall be to exclude from this Guarantee the liability of such Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent or Lenders. Each Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.

US OBLIGORS GUARANTEE

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8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.
9. Corporate Existence, Power and Authority. Each Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of each Guarantor, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of each Guarantor, or any indenture, agreement or undertaking to which a Guarantor is a party or by which a Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of each Guarantor enforceable in accordance with its terms. Each Guarantor signing this guarantee shall be bound hereby whether or not any other Guarantor or any other person signs this Guarantee at any time.
10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver
- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between any Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would result in the application of the law of any jurisdiction other than the laws of the State of Illinois.
- (b) Each Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Agent elects, and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of any Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between any

US OBLIGORS GUARANTEE

Guarantor, Borrowers or their affiliates or any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against any Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by a Borrower or its affiliates or any Guarantor to Agent or to otherwise enforce its rights against any Guarantor or its property).

- (c) Each Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Agent's option, by service upon a Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, applicable Guarantor shall appear in answer to such process, failing which such Guarantor shall be deemed in default and judgment may be entered by Agent against any Guarantor for the amount of the claim and other relief requested.
- (d) EACH GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF ANY GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTORS AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Neither Agent, Tranche B Agent nor any Lender shall have any liability to any Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by a Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.

US OBLIGORS GUARANTEE

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11. **Judgment Currency.** To the extent permitted by applicable law, the obligations of each Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which such Guarantor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself, Tranche B Agent and Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, each Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of a Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.
 12. **Notices.** All notices, requests and demands hereunder shall be in writing and:
 - (a) made to Agent at its address set forth above and to each Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
 - (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
 13. **Partial Invalidity.** If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
 14. **Entire Agreement.** This Guarantee represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
 15. **Successors and Assigns.** This Guarantee shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of a Guarantor shall not terminate this Guarantee as to such entity or as to any other Guarantor.

US OBLIGORS GUARANTEE

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16. Construction. All references to the term “**Guarantor(s)**” wherever used herein shall mean each Guarantor and its respective successors and assigns (including, without limitation, any receiver, trustee or custodian for any Guarantor or any of its assets or any Guarantor in its capacity as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Agent**” wherever used herein shall mean Agent and its successors and assigns and all references to the term “**Borrowers**” or “**affiliates**” wherever used herein shall mean each Borrower and affiliate and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrowers or affiliates or any of their assets or Borrowers or affiliates in their capacities as debtor or debtor-in-possession under the Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.
17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of any Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as a “Borrower” or “Guarantor” thereunder. Each undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.
18. Acknowledgement. Each Guarantor acknowledges receipt of a copy of this Guarantee.

US OBLIGORS GUARANTEE

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19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

[Signature Page Follows]

US OBLIGORS GUARANTEE

IN WITNESS WHEREOF, each Guarantor has executed and delivered this Amended and Restated Guarantee as of the day and year first above written.

ATTEST:

SMTC CORPORATION

By: _____

Title: _____

ATTEST:

By: _____

Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

ATTEST:

HTM HOLDINGS, INC.

By: _____

Title: _____

ATTEST:

By: _____

Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax No.: (905) 479-5326

US OBLIGORS GUARANTEE

ATTEST:

SMTC HOLDINGS, LLC

By: SMTC CORPORATION, its sole member

By: _____

Title: _____

ATTEST:

By: _____

Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road

Markham, Ontario L3R 4N6

Fax No.: (905) 479-5326

US OBLIGORS GUARANTEE

AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

This Amended and Restated General Security Agreement (“**Agreement**”) dated August 10, 2007 is by each of the undersigned (together with their respective successors and assigns are collectively, “**Debtors**”, individually, “**Debtor**”), in favor of Wachovia Capital Finance Corporation (Central), an Illinois corporation and successor in interest to Congress Financial Corporation (Central), as US Collateral Agent (together with its successors and assigns in such capacity, “**Secured Party**”) for itself, Canadian Agent (as hereinafter defined), the Tranche B Agent (as hereinafter defined) and the lenders from time to time party to the Canadian Loan Agreement (as hereinafter defined) and US Agent (as hereinafter defined), the Tranche B Agent (as hereinafter defined) and the lenders from time to time party to the US Loan Agreement (as hereinafter defined).

WITNESSETH

WHEREAS Congress Financial Corporation (Canada) (“**Congress Canada**”) (predecessor to Canadian Agent) had entered into a loan agreement with Canadian Borrower (as hereinafter defined) dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Canadian Loan Agreement**”) pursuant to which Congress Canada made loans and provided other financial accommodations to Canadian Borrower;

WHEREAS Congress Financial Corporation (Central) (“**Congress Central**”) (predecessor to US Agent) had entered on behalf of itself and as agent into a loan agreement with US Borrowers (as hereinafter defined) dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original US Loan Agreement**”) pursuant to which Congress Central made loans and provided other financial accommodations to US Borrowers;

WHEREAS Debtors are affiliates of Canadian Borrower and US Borrowers and as such have derived direct and indirect economic benefits from the making of the loans and other financial accommodations which have been provided to Canadian Borrower pursuant to the Original Canadian Loan Agreement and to US Borrowers pursuant to the Original US Loan Agreement;

WHEREAS Debtors had executed and delivered a guarantee dated as of June 1, 2004 (the “**Original Canadian Guarantee**”) in favour of Congress Canada in respect of all obligations, liabilities and indebtedness of any kind, nature and description of Canadian Borrower and/or its affiliates to Congress Canada;

WHEREAS Debtors had executed and delivered a guarantee dated as of June 1, 2004 (the “**Original US Guarantee**”) in favour of Congress Central in respect of all obligations, liabilities and indebtedness of any kind, nature and description of US Borrowers and/or their affiliates to Congress Central;

US OBLIGORS GSA

WHEREAS Debtors had executed and delivered a general security agreement dated as of June 1, 2004 (the “**Original GSA**”) in favour of Congress Central as collateral agent to secure obligations of the Debtors to Congress Canada and to Congress Central under the Original Canadian Guarantee, the Original US Guarantee, the Original Canadian Loan Agreement and the Original US Loan Agreement;

WHEREAS Canadian Borrower, Canadian Agent (as hereinafter defined), Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity together with any successors and assigns if any, the “**Tranche B Agent**”) and the lenders that are from time to time party to the Canadian Loan Agreement (as hereinafter defined) (collectively, the “**Canadian Lenders**”) have agreed to amend and restate the Original Canadian Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Canadian Loan Agreement**”) and to amend and restate the Original Canadian Guarantee pursuant to an amended and restated guarantee dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Canadian Guarantee**”);

WHEREAS US Borrowers, US Agent (as hereinafter defined), Tranche B Agent and the lenders that are from time to time party to the US Loan Agreement (as hereinafter defined) (collectively, the “**US Lenders**”) have agreed to amend and restate the Original US Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**US Loan Agreement**”) and to amend and restate the Original US Guarantee pursuant to an amended and restated guarantee dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**US Guarantee**”); and

WHEREAS in order to induce Canadian Agent (as hereinafter defined), Tranche B Agent, US Agent (as hereinafter defined), Canadian Lenders and US Lenders (collectively, the “**Lenders**”) to enter into Canadian Loan Agreement and US Loan Agreement (collectively, the “**Loan Agreements**”) and the other Financing Agreements (as hereinafter defined) and to make the loans under the Loan Agreements, and as a condition precedent thereto, Canadian Agent, US Agent, Tranche B Agent and Lenders require that Debtors amend and restate the Original GSA and execute and deliver this Amended and Restated General Security Agreement (the “**Agreement**”) to secure the obligations of Debtors to Canadian Agent, US Agent, Tranche B Agent and Lenders under Canadian Guarantee and US Guarantee (collectively, the “**Guarantees**”).

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

SECTION 1. DEFINITIONS

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

1.1 “**Accounts**” shall mean all present and future rights of a Debtor to payment of a monetary obligation, whether or not earned by performance, which is not evidenced by chattel paper or an instrument, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, (c) for a secondary obligation incurred or to be incurred, or (d) arising out of the use of a credit or charge card or information contained on or for use with the card.

1.2 “**Canadian Agent**” shall mean Wachovia Capital Finance Corporation (Canada), an Ontario corporation, as agent for itself, Tranche B Agent and Canadian Lenders, together with any of their successors and assigns.

US OBLIGORS GSA

1.3 “**Canadian Borrower**” shall mean SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada, an Ontario corporation, and its successors and assigns.

1.4 “**Canadian Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.5 “**Canadian Lenders**” shall have the meaning set forth in the Recitals hereof.

1.6 “**Congress Canada**” shall have the meaning set forth in the Recitals hereof.

1.7 “**Congress Central**” shall have the meaning set forth in the Recitals hereof.

1.8 “**Equipment**” shall mean all of a Debtor’s now owned and hereafter acquired equipment, wherever located, including machinery, data processing and computer equipment and computer hardware and software, whether owned or licensed, and including embedded software, vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.9 “**Event of Default**” shall have the meaning set forth in Section 6.1 hereof.

1.10 “**Financing Agreements**” shall mean, collectively, the US Loan Agreement, the Canadian Loan Agreement, the US Guarantee, the Canadian Guarantee, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by US Borrowers, Canadian Borrower, a Debtor or any Obligor in connection with the US Loan Agreement or Canadian Loan Agreement as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 “**GAAP**” shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the circumstances as of the date of determination consistently applied, except that, for purposes of Sections 5.13 and 5.14 hereof, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Secured Party prior to the date hereof.

US OBLIGORS GSA

1.12 “**Information Certificate**” shall mean the Information Certificate of each Debtor constituting Exhibit A hereto containing material information with respect to such Debtor, its business and assets provided by or on behalf of each Debtor to Secured Party in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

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

1.14 “**Inventory**” shall mean all of a Debtor’s now owned and hereafter existing or acquired goods, wherever located, which (a) are leased by a Debtor as lessor; (b) are held by a Debtor for sale or lease or to be furnished under a contract of service; (c) are furnished by a Debtor under a contract of service; or (d) consist of raw materials, work in process, finished goods or materials used or consumed in its business.

1.15 “**Lenders**” shall have the meaning set forth in the Recitals hereof.

1.16 “**Loan Agreements**” shall have the meaning set forth in the Recitals hereof.

1.17 “**Obligations**” shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by each Debtor to Secured Party, Tranche B Agent, Lenders and/or their respective affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, debtor or otherwise, whether arising under this Agreement or any other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the US Loan Agreement or the Canadian Loan Agreement or after the commencement of any case with respect to US Borrowers, Canadian Borrower or Debtors under the United States Bankruptcy Code, the *Bankruptcy and Insolvency Act* (Canada), the *Companies’ Creditors Arrangement Act* (Canada), or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Secured Party, Tranche B Agent, Lenders and/or their respective affiliates.

US OBLIGORS GSA

1.18 “**Obligor**” shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Debtors.

1.19 “**Original Canadian Guarantee**” shall have the meaning set forth in the Recitals hereof.

1.20 “**Original Canadian Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.21 “**Original GSA**” shall have the meaning set forth in the Recitals hereof.

1.22 “**Original Financing Agreements**” shall mean, collectively, the Original US Loan Agreement, the Original Canadian Loan Agreement, the Original US Guarantee, the Original Canadian Guarantee, the Original GSA and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by US Borrowers, Canadian Borrower, a Debtor or any Obligor in connection with the Original US Loan Agreement or Original Canadian Loan Agreement.

1.23 “**Original US Guarantee**” shall have the meaning set forth in the Recitals hereof.

1.24 “**Original US Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

1.25 “**Person**” or “**person**” shall mean any individual, sole proprietorship, partnership, corporation (including any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.26 “**Real Property**” shall mean all now owned and hereafter acquired real property of a Debtor, including leasehold interests, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located.

1.27 “**Receivables**” shall mean all of the following now owned or hereafter arising or acquired property of a Debtor: (a) all Accounts; (b) all interest, fees, late charges, penalties, collection fees and other amounts due or to become due or otherwise payable in connection with any Account; (c) all payment intangibles of a Debtor and other contract rights, chattel paper, instruments, notes, and other forms of obligations owing to a Debtor, whether from the sale and lease of goods or other property, licensing of any property (including Intellectual Property or other general intangibles), rendition of services or from loans or advances by a Debtor or to or for the benefit of any third person (including loans or advances to any affiliates or subsidiaries of a Debtor) or otherwise associated with any Accounts, Inventory or general intangibles of a Debtor (including, without limitation, choses in action, causes of action, tax refunds, tax refund claims, any funds which may become payable to a Debtor in connection with the termination of any employee benefit plan and any other amounts payable to a Debtor from any employee benefit plan, rights and claims against carriers and shippers, rights to indemnification, business interruption insurance and proceeds thereof, casualty or any similar types of insurance and any proceeds thereof and proceeds of insurance covering the lives of employees on which a Debtor is beneficiary).

US OBLIGORS GSA

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

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

1.30 “**US Agent**” shall mean Wachovia Capital Finance Corporation (Central), an Illinois corporation, on behalf of itself, Tranche B Agent and US Lenders, together with any of their successors and assigns.

1.31 “**US Borrowers**” shall mean each of SMTC Manufacturing Corporation of California, a California corporation, SMTC Manufacturing Corporation of Massachusetts, a Massachusetts corporation and SMTC Mex Holdings, Inc., a Delaware corporation, and their respective successors and assigns.

1.32 “**US Lenders**” shall have the meaning set forth in the Recitals hereof.

1.33 “**US Loan Agreement**” shall have the meaning set forth in the Recitals hereof.

SECTION 2. GRANT OF SECURITY INTEREST

2.1 Grant of Security Interest. To secure payment and performance of all Obligations, each Debtor hereby grants to Secured Party, for itself and the ratable benefit of Tranche B Agent and Lenders a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Secured Party for itself and for the ratable benefit of Tranche B Agent and Lenders as security, all personal and real property and fixtures and interests in property and fixtures of such Debtor, whether now owned or hereafter acquired or existing, and wherever located (together with all other collateral security for the Obligations at any time granted to or held or acquired by Secured Party, Tranche B Agent or any Lender, collectively, the “**Collateral**”), including:

- (a) all Accounts;
- (b) all general intangibles, including, without limitation, all Intellectual Property;
- (c) all goods, including, without limitation, Inventory and Equipment;

US OBLIGORS GSA

(d) all Real Property and fixtures;

(e) all chattel paper (including all tangible and electronic chattel paper);

(f) all instruments (including all promissory notes);

(g) all documents;

(h) all deposit accounts;

(i) all letters of credit, banker's acceptances and similar instruments and including all letter-of-credit rights;

(j) all supporting obligations and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Receivables and other Collateral, including (i) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral, (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Receivables or other Collateral, including returned, repossessed and reclaimed goods, and (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;

(k) all (i) investment property (including securities, whether certificated or uncertificated, securities accounts, security entitlements, commodity contracts or commodity accounts) and (ii) monies, credit balances, deposits and other property of each Debtor now or hereafter held or received by or in transit to Secured Party or its affiliates or at any other depository or other institution from or for the account of each Debtor, whether for safekeeping, pledge, custody, transmission, collection or otherwise;

(l) all commercial tort claims, including, without limitation, those identified in the Information Certificate;

(m) to the extent not otherwise described above, all Receivables;

(n) all Records; and

(o) all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims against third parties for loss or damage to or destruction of or other involuntary conversion of any kind or nature of any or all of the other Collateral.

2.2 Perfection of Security Interests.

(a) Each Debtor irrevocably and unconditionally authorizes Secured Party (or its agent) to file at any time and from time to time such financing statements with respect to the Collateral naming Secured Party or its designee as the secured party and such Debtor as debtor, as Secured Party may require, and including any other information with respect to such Debtor or otherwise required by Section 5 of Article 9 of the Uniform Commercial Code of such jurisdiction as Secured Party may determine, together with any amendment and continuations

US OBLIGORS GSA

with respect thereto, which authorization shall apply to all financing statements filed on, prior to or after the date hereof. Each Debtor hereby ratifies and approves all financing statements naming Secured Party or its designee as secured party and such Debtor as debtor with respect to the Collateral (and any amendments with respect to such financing statements) filed by or on behalf of Secured Party prior to the date hereof and ratifies and confirms the authorization of Secured Party to file such financing statements (and amendments, if any). Each Debtor hereby authorizes Secured Party to adopt on behalf of such Debtor any symbol required for authenticating any electronic filing. In the event that the description of the collateral in any financing statement naming Secured Party or its designee as the secured party and a Debtor as debtor includes assets and properties of a Debtor that do not at any time constitute Collateral, whether hereunder, under any of the other Financing Agreements or otherwise, the filing of such financing statement shall nonetheless be deemed authorized by such Debtor to the extent of the Collateral included in such description and it shall not render the financing statement ineffective as to any of the Collateral or otherwise affect the financing statement as it applies to any of the Collateral. In no event shall a Debtor at any time file, or permit or cause to be filed, any correction statement or termination statement with respect to any financing statement (or amendment or continuation with respect thereto) naming Secured Party or its designee as secured party and such Debtor as debtor.

(b) Each Debtor does not have any chattel paper (whether tangible or electronic) or instruments as of the date hereof, except as set forth in its Information Certificate. In the event that a Debtor shall be entitled to or shall receive any chattel paper or instrument after the date hereof, such Debtor shall promptly notify Secured Party thereof in writing. Promptly upon the receipt thereof by or on behalf of such Debtor (including by any agent or representative), such Debtor shall deliver, or cause to be delivered to Secured Party, all tangible chattel paper and instruments that such Debtor has or may at any time acquire, accompanied by such instruments of transfer or assignment duly executed in blank as Secured Party may from time to time specify, in each case except as Secured Party may otherwise agree. At Secured Party's option, each Debtor shall, or Secured Party may at any time on behalf of such Debtor, cause the original of any such instrument or chattel paper to be conspicuously marked in a form and manner acceptable to Secured Party with the following legend referring to chattel paper or instruments as applicable: "This [chattel paper][instrument] is subject to the security interest of Wachovia Capital Finance Corporation (Central), as Agent, and any sale, transfer, assignment or encumbrance of this [chattel paper][instrument] violates the rights of such secured party."

(c) In the event that a Debtor shall at any time hold or acquire an interest in any electronic chattel paper or any "transferable record" (as such term is defined in Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction), such Debtor shall promptly notify Secured Party thereof in writing. Promptly upon Secured Party's request, each Debtor shall take, or cause to be taken, such actions as Secured Party may reasonably request to give Secured Party control of such electronic chattel paper under Section 9-105 of the UCC and control of such transferable record under Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as in effect in such jurisdiction.

(d) Each Debtor does not have any deposit accounts as of the date hereof, except as set forth in its Information Certificate. Each Debtor shall not, directly or indirectly,

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after the date hereof open, establish or maintain any deposit account unless each of the following conditions is satisfied: (i) Secured Party shall have received not less than five (5) Business days prior written notice of the intention of such Debtor to open or establish such account which notice shall specify in reasonable detail and specificity acceptable to Secured Party the name of the account, the owner of the account, the name and address of the bank at which such account is to be opened or established, the individual at such bank with whom such Debtor is dealing and the purpose of the account, (ii) the bank where such account is opened or maintained shall be acceptable to Secured Party, and (iii) on or before the opening of such deposit account, such Debtor shall as Secured Party may specify either (A) deliver to Secured Party and Tranche B Agent, a Deposit Account Control Agreement with respect to such deposit account duly authorized, executed and delivered by such Debtor and the bank at which such deposit account is opened and maintained or (B) arrange for Secured Party to become the customer of the bank with respect to the deposit account on terms and conditions acceptable to Secured Party. The terms of this subsection (d) shall not apply to deposit accounts specifically and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of a Debtor's salaried employees.

(e) Each Debtor does not own or hold, directly or indirectly, beneficially or as record owner or both, any investment property, as of the date hereof, or have any investment account, securities account, commodity account or other similar account with any bank or other financial institution or other securities intermediary or commodity intermediary as of the date hereof, in each case except as set forth in its Information Certificate.

(i) In the event that a Debtor shall be entitled to or shall at any time after the date hereof hold or acquire any certificated securities, such Debtor shall promptly endorse, assign and deliver the same to Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as Secured Party may from time to time specify. If any securities, now or hereafter acquired by a Debtor are uncertificated and are issued to such Debtor or its nominee directly by the issuer thereof, such Debtor shall immediately notify Secured Party thereof and shall as Secured Party may specify, either (A) cause the issuer to agree to comply with instructions from Secured Party as to such securities, without further consent of such Debtor or such nominee, or (B) arrange for Secured Party to become the registered owner of the securities.

(ii) Each Debtor shall not, directly or indirectly, after the date hereof open, establish or maintain any investment account, securities account, commodity account or any other similar account (other than a deposit account) with any securities intermediary or commodity intermediary unless each of the following conditions is satisfied: (A) Secured Party shall have received not less than five (5) Business days prior written notice of the intention of such Debtor to open or establish such account which notice shall specify in reasonable detail and specificity acceptable to Secured Party the name of the account, the owner of the account, the name and address of the securities intermediary or commodity intermediary at which such account is to be opened or established, the individual at such intermediary with whom such Debtor is dealing and the purpose of the account, (B) the securities intermediary or commodity intermediary (as the case may be) where such account is opened or maintained shall be acceptable to Secured Party, and (C) on or before the opening of such investment account, securities account or other similar account with a securities intermediary or commodity intermediary, such Debtor shall as Secured Party may specify either (1) execute and deliver, and

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cause to be executed and delivered to Secured Party, an Investment Property Control Agreement with respect thereto duly authorized, executed and delivered by such Debtor and such securities intermediary or commodity intermediary or (2) arrange for Secured Party to become the entitlement holder with respect to such investment property on terms and conditions acceptable to Secured Party.

(f) Each Debtor is not the beneficiary or otherwise entitled to any right to payment under any letter of credit, banker's acceptance or similar instrument as of the date hereof, except as set forth in its Information Certificate. In the event that a Debtor shall be entitled to or shall receive any right to payment under any letter of credit, banker's acceptance or any similar instrument, whether as beneficiary thereof or otherwise after the date hereof, such Debtor shall promptly notify Secured Party thereof in writing. Such Debtor shall immediately, as Secured Party may specify, either (i) deliver, or cause to be delivered to Secured Party, with respect to any such letter of credit, banker's acceptance or similar instrument, the written agreement of the issuer and any other nominated person obligated to make any payment in respect thereof (including any confirming or negotiating bank), in form and substance satisfactory to Secured Party, consenting to the assignment of the proceeds of the letter of credit to Secured Party by such Debtor and agreeing to make all payments thereon directly to Secured Party or as Secured Party may otherwise direct or (ii) cause Secured Party to become, at such Debtor's expense, the transferee beneficiary of the letter of credit, banker's acceptance or similar instrument (as the case may be).

(g) Each Debtor has no commercial tort claims as of the date hereof, except as set forth in its Information Certificate. In the event that a Debtor shall at any time after the date hereof have any commercial tort claims, such Debtor shall promptly notify Secured Party thereof in writing, which notice shall (i) set forth in reasonable detail the basis for and nature of such commercial tort claim and (ii) include the express grant by such Debtor to Secured Party of a security interest in such commercial tort claim (and the proceeds thereof). In the event that such notice does not include such grant of a security interest, the sending thereof by such Debtor to Secured Party shall be deemed to constitute such grant to Secured Party. Upon the sending of such notice, any commercial tort claim described therein shall constitute part of the Collateral and shall be deemed included therein. Without limiting the authorization of Secured Party provided in Section 5.2(a) hereof or otherwise arising by the execution by a Debtor of this Agreement or any of the other Financing Agreements, Secured Party is hereby irrevocably authorized from time to time and at any time to file such financing statements naming Secured Party or its designee as secured party and such Debtor as debtor, or any amendments to any financing statements, covering any such commercial tort claim as Collateral. In addition, each Debtor shall promptly upon Secured Party's request, execute and deliver, or cause to be executed and delivered, to Secured Party such other agreements, documents and instruments as Secured Party may require in connection with such commercial tort claim.

(h) Each Debtor does not have any goods, documents of title or other Collateral in the custody, control or possession of a third party as of the date hereof, except as set forth in its Information Certificate and except for goods located in the United States in transit to a location of a Debtor permitted herein in the ordinary course of business of such Debtor in the possession of the carrier transporting such goods. In the event that any goods, documents of title or other Collateral are at any time after the date hereof in the custody, control or possession of any other person not referred to in its Information Certificate or such carriers, each Debtor shall

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promptly notify Secured Party thereof in writing. Promptly upon Secured Party's request, each Debtor shall deliver to Secured Party a Collateral Access Agreement duly authorized, executed and delivered by such person and applicable Debtor.

(i) Each Debtor shall take any other actions reasonably requested by Secured Party from time to time to cause the attachment, perfection and first priority of, and the ability of Secured Party to enforce, the security interest of Secured Party in any and all of the Collateral, including, without limitation, (i) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the UCC or other applicable law, to the extent, if any, that a Debtor's signature thereon is required therefor, (ii) causing Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party in such Collateral, (iii) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party in such Collateral, (iv) obtaining the consents and approvals of any governmental authority or third party, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, and taking all actions required by any earlier versions of the UCC or by other law, as applicable in any relevant jurisdiction.

SECTION 3. COLLATERAL COVENANTS

3.1 Accounts Covenants.

(a) Secured Party shall have the right at any time or times, in Secured Party's name or in the name of a nominee of Secured Party, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

(b) Each Debtor shall deliver or cause to be delivered to Secured Party, with appropriate endorsement and assignment, with full recourse to such Debtor, all chattel paper and instruments which such Debtor now owns or may at any time acquire immediately upon Debtor's receipt thereof, except as Secured Party may otherwise agree.

3.2 Inventory Covenants. With respect to the Inventory: (a) each Debtor shall at all times maintain inventory records reasonably satisfactory to Secured Party, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Debtor's cost therefor and daily withdrawals therefrom and additions thereto; (b) each Debtor shall conduct a physical count of the Inventory at least once each year, but at any time or times as Secured Party may request on or after an Event of Default, and promptly following such physical inventory shall supply Secured Party with a report in the form and with such specificity as may be reasonably satisfactory to Secured Party concerning such physical count; (c) each Debtor shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Secured Party, except for sales of Inventory in the ordinary course of each Debtor's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) upon Secured Party's request, each Debtor shall, at its expense, no more than one (1) time in any twelve (12) month period, but at any time or times as Secured Party may request on or after an Event of Default, deliver or cause to be delivered to Secured Party written reports or appraisals as to the Inventory in form, scope and methodology

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acceptable to Secured Party and by an appraiser acceptable to Secured Party, addressed to Secured Party or upon which Secured Party is expressly permitted to rely; (e) each Debtor shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto); (f) each Debtor assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (g) each Debtor shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate such Debtor to repurchase such Inventory; (h) each Debtor shall keep the Inventory in good and marketable condition; and (i) each Debtor shall not, without prior written notice to Secured Party, acquire or accept any Inventory on consignment or approval.

3.3 Equipment and Real Property Covenants. With respect to the Equipment and Real Property: (a) upon Secured Party's request, each Debtor shall, at its expense, no more than one (1) time in any twelve (12) month period, but at any time or times as Secured Party may request on or after an Event of Default, deliver or cause to be delivered to Secured Party written appraisals as to the Equipment and/or the Real Property in form, scope and methodology acceptable to Secured Party and by an appraiser acceptable to Secured Party, addressed to Secured Party and upon which Secured Party is expressly permitted to rely; (b) each Debtor shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (c) each Debtor shall use the Equipment and Real Property with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (d) the Equipment is and shall be used in each Debtor's business and not for personal, family, household or farming use; (e) each Debtor shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of such Debtor or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of such Debtor in the ordinary course of business; (f) the Equipment is now and shall remain personal property and each Debtor shall not permit any of the Equipment to be or become a part of or affixed to real property; and (g) each Debtor assumes all responsibility and liability arising from the use of the Equipment and Real Property.

3.4 Power of Attorney. Each Debtor hereby irrevocably designates and appoints Secured Party (and all persons designated by Secured Party) for itself and the ratable benefit of Tranche B Agent and Lenders as such Debtor's true and lawful attorney-in-fact, and authorizes Secured Party, in such Debtor's or Secured Party's name, to: (a) at any time an Event of Default exists or has occurred and is continuing (i) demand payment on Receivables or other Collateral, (ii) enforce payment of Receivables by legal proceedings or otherwise, (iii) exercise all of such Debtor's rights and remedies to collect any Receivable or other Collateral, (iv) sell or assign any Receivable upon such terms, for such amount and at such time or times as the Secured Party deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Receivable, (vii) prepare, file and sign such Debtor's name on any proof of claim in bankruptcy or other similar document against an account debtor or other obligor in respect of any Receivables or other Collateral, (viii) notify the post office authorities to change the address for delivery of remittances from account debtors or other obligors in respect of Receivables or other proceeds of Collateral to an address designated by Secured Party, and open and dispose of all

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mail addressed to such Debtor and handle and store all mail relating to the Collateral; and (ix) do all acts and things which are necessary, in Secured Party's determination, to fulfill such Debtor's obligations under this Agreement and the other Financing Agreements and (b) at any time to (i) take control in any manner of any item of payment in respect of Receivables or constituting Collateral or otherwise received in or for deposit in any deposit accounts maintained by such Debtor or otherwise received by Secured Party, (ii) have access to any lockbox or postal box into which remittances from account debtors or other obligors in respect of Receivables or other proceeds of Collateral are sent or received, (iii) endorse such Debtor's name upon any items of payment in respect of Receivables or constituting Collateral or otherwise received by Secured Party and deposit the same in Secured Party's account for application to the Obligations, (iv) endorse such Debtor's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Receivable or any goods pertaining thereto or any other Collateral, including any warehouse or other receipts, or bills of lading and other negotiable or non-negotiable documents, and (v) sign such Debtor's name on any verification of Receivables and notices thereof to account debtors or any secondary obligors or other obligors in respect thereof. Each Debtor hereby releases Secured Party, Tranche B Agent, Lenders and their respective officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Secured Party's, Tranche B Agent or any Lender's own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

3.5 Right to Cure. Secured Party may, at its option, (a) upon notice to each Debtor, cure any default by such Debtor under any material agreement with a third party that affects the Collateral, its value or the ability of Secured Party to collect, sell or otherwise dispose of the Collateral or the rights and remedies of Secured Party therein, for itself and the benefit of Tranche B Agent and Lenders, or the ability of such Debtor to perform its obligations hereunder or under the other Financing Agreements, (b) pay or bond on appeal any judgment entered against such Debtor, (c) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (d) pay any amount, incur any expense or perform any act which, in Secured Party's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Secured Party, Tranche B Agent and Lenders with respect thereto. Secured Party may add any amounts so expended to the Obligations and charge such Debtor's account therefor, such amounts to be repayable by each Debtor on demand. Neither Secured Party, Tranche B Agent nor any Lender shall be under any obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of any Debtor. Any payment made or other action taken by Secured Party under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

3.6 Access to Premises. From time to time as requested by Secured Party, at the cost and expense of each Debtor, (a) Secured Party or its designee shall have complete access to all of each Debtor's premises during normal business hours and after notice to such Debtor, or at any time and without notice to such Debtor if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of such Debtor's books and records, including the Records, and (b) each Debtor shall promptly furnish to Secured Party such copies of such books and records or extracts therefrom as Secured Party may request, and (c) use during normal business hours each of such Debtor's personnel, equipment,

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supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Debtor hereby represents and warrants to Secured Party, Tranche B Agent and Lenders the following (which shall survive the execution and delivery of this Agreement):

4.1 Corporate Existence; Power and Authority. Each Debtor is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on such Debtor's financial condition, results of operation or business or the rights of Secured Party, Tranche B Agent or Lenders in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder (a) are all within each Debtor's corporate powers, (b) have been duly authorized, (c) are not in contravention of law or the terms of each Debtor's certificate of incorporation, by laws, or other organizational documentation, or any indenture, agreement or undertaking to which such Debtor is a party or by which such Debtor or its property are bound and (d) will not result in the creation or imposition of, or require or give rise to any obligation to grant, any lien, security interest, charge or other encumbrance upon any property of such Debtor. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of each Debtor enforceable in accordance with their respective terms.

4.2 Name; State of Organization; Chief Executive Office; Collateral Locations.

(a) The exact legal name of each Debtor is as set forth on the signature page of this Agreement and in each Debtor's Information Certificate. Each Debtor has not, during the past five years, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in its Information Certificate.

(b) Each Debtor is an organization of the type and organized in the jurisdiction set forth in its Information Certificate. The Information Certificate of each Debtor accurately sets forth the organizational identification number of each Debtor or accurately states that each Debtor has none and accurately sets forth the federal employer identification number of each Debtor.

(c) The chief executive office and mailing address of each Debtor and each Debtor's Records concerning Accounts are located only at the address identified as such in its Information Certificate and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in its Information Certificate, subject to the right of such Debtor to establish new locations in accordance with Section 5.2 below. The Information Certificate of each Debtor correctly identifies any of such locations which are not owned by such Debtor and sets forth the owners and/or operators thereof.

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4.3 Financial Statements; No Material Adverse Change. All financial statements relating to each Debtor which have been or may hereafter be delivered by such Debtor to Secured Party have been prepared in accordance with GAAP (except as to any interim financial statements, to the extent such statements are subject to normal year-end adjustments and do not include any notes) and fairly present the financial condition and the results of operation of such Debtor as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by each Debtor to Secured Party prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Debtors, since the date of the most recent audited financial statements furnished by Debtors to Secured Party prior to the date of this Agreement.

4.4 Priority of Liens; Title to Properties. The security interests and liens granted to Secured Party under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the existing liens indicated on each Debtor's Information Certificate and the other liens permitted under Section 5.8 hereof. Each Debtor has good and marketable fee simple title to or valid leasehold interests in all of its Real Property and good, valid and merchantable title to all of its other properties and assets subject to no liens, mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Secured Party and such others as are specifically listed on its Information Certificate or permitted under Section 5.8 hereof.

4.5 Tax Returns. Each Debtor has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it. All information in such tax returns, reports and declarations is complete and accurate in all material respects. Each Debtor has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Debtor and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

4.6 Litigation. Except as set forth in an Information Certificate, there is no present investigation by any governmental authority pending, or to the best of each Debtor's knowledge threatened, against or affecting Debtors, their assets or business and there are no actions, suits, proceedings or claims by any Person pending, or to the best of each Debtor's knowledge threatened, against Debtors or their assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Debtors would result in any material adverse change in the assets, business or prospects of Debtors or would impair the ability of Debtors to perform their obligations hereunder or under any of the other Financing Agreements to which they are a party or of Secured Party to enforce any Obligations or realize upon any Collateral.

4.7 Compliance with Other Agreements and Applicable Laws. Each Debtor is not in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which they are a party or by which they or any of their assets are bound and each Debtor is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority.

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4.8 Subsidiaries; Affiliates; Capitalization; Solvency.

(a) Debtors do not have any direct or indirect subsidiaries or affiliates and are not engaged in any joint venture or partnership except as set forth in the relevant Information Certificate.

(b) Debtors are the record and beneficial owner of all of the issued and outstanding shares of capital stock of each of the Subsidiaries listed on the relevant Information Certificate as being owned by such Debtor and there are no proxies, irrevocable or otherwise, with respect to such shares and no equity securities of any of the Subsidiaries are or may become required to be issued by reason of any options, warrants, rights to subscribe to, calls or commitments of any kind or nature and there are no contracts, commitments, understandings or arrangements by which any Subsidiary is or may become bound to issue additional shares of its capital stock or securities convertible into or exchangeable for such shares.

(c) The issued and outstanding shares of capital stock of each Debtor is directly and beneficially owned and held by the persons indicated in its Information Certificate, and in each case all of such shares have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind, except as disclosed in writing to Secured Party prior to the date hereof.

4.9 Bank Accounts. All of the deposit accounts, investment accounts or other accounts in the name of or used by each Debtor maintained at any bank or other financial institution is set forth in such Debtor's Information Certificate, subject to the right of such Debtor to establish new accounts in accordance with Section 2.2 hereof.

4.10 Accuracy and Completeness of Information. All information furnished by or on behalf of each Debtor in writing to Secured Party in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on its Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse effect on the business, assets or prospects of such Debtor, which has not been fully and accurately disclosed to Secured Party in writing.

4.11 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Secured Party on the date of each additional borrowing or other credit accommodation under the US Loan Agreement or Canadian Loan Agreement and shall be conclusively presumed to have been relied on by Secured Party regardless of any investigation made or information possessed by Secured Party. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Debtors shall now or hereafter give, or cause to be given, to Secured Party.

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SECTION 5. AFFIRMATIVE AND NEGATIVE COVENANTS

5.1 Maintenance of Existence.

(a) Each Debtor shall at all times preserve, renew and keep in full force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted.

(b) Each Debtor shall not change its name unless each of the following conditions is satisfied: (i) Secured Party shall have received not less than thirty (30) days prior written notice from applicable Debtor of such proposed change in its corporate name, which notice shall accurately set forth the new name; and (ii) Secured Party shall have received a copy of the amendment to the Certificate of Incorporation of such Debtor providing for the name change certified by the Secretary of State of the jurisdiction of incorporation or organization of such Debtor as soon as it is available.

(c) Each Debtor shall not change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall not acquire one) unless Secured Party shall have received not less than thirty (30) days' prior written notice from such Debtor of such proposed change, which notice shall set forth such information with respect thereto as Secured Party may require and Secured Party shall have received such agreements as Secured Party may reasonably require in connection therewith. Each Debtor shall not change its type of organization, jurisdiction of organization or other legal structure.

5.2 New Collateral Locations. Each Debtor may only open any new location within the continental United States provided such Debtor (a) gives Secured Party thirty (30) days prior written notice from such Debtor of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Secured Party such agreements, documents, and instruments as Secured Party may deem necessary or desirable to protect its interests in the Collateral at such location.

5.3 Compliance with Laws, Regulations, Etc. Each Debtor shall, at all times comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any foreign, Federal, State or local governmental authority applicable to it.

5.4 Payment of Taxes and Claims. Each Debtor shall, duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Debtor and with respect to which adequate reserves have been set aside on its books. Each Debtor shall be liable for any tax or penalties imposed on Secured Party as a result of the financing arrangements provided for herein and each Debtor agrees to indemnify and hold Secured Party harmless with respect to the foregoing, and to repay to Secured Party on demand the amount thereof, and until paid by Debtors such amount shall be added and deemed part of the Loans under the US Loan Agreement and Canadian Loan Agreement, provided, that, nothing contained herein shall be construed to require Debtors to pay any income or franchise taxes attributable to the income of Secured Party from any amounts charged or paid hereunder to Secured Party. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of the US Loan Agreement or the Canadian Loan Agreement.

US OBLIGORS GSA

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

5.6 Financial Statements and Other Information.

(a) Each Debtor shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of such Debtor in accordance with GAAP. Each Debtor shall promptly furnish to Secured Party all such financial and other information as Secured Party shall reasonably request relating to the Collateral and the assets, business and operations of such Debtor, and to notify the auditors and accountants of such Debtor that Secured Party is authorized to obtain such information directly from them. Without limiting the foregoing, each Debtor shall furnish or cause to be furnished to Secured Party, the following: (i) within twenty (20) days after the end of each fiscal month, monthly unaudited consolidated financial statements and unaudited consolidating financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow, and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of such Debtor as of the end of and through such fiscal month, certified to be correct by the chief financial officer of such Debtor, subject to normal year-end adjustments, along with a schedule in form reasonably satisfactory to Secured Party of the calculations used in determining, as of the end of such month, whether such Debtor was in compliance with the covenants set forth in Sections 5.13 and 5.14 of this Agreement for such month and (ii) within ninety (90) days after the end of each fiscal year, audited consolidated financial statements and audited consolidating financial statements of each Debtor (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), and the accompanying notes

US OBLIGORS GSA

thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of such Debtor as of the end of and for such fiscal year, together with the unqualified opinion of independent certified public accountants, which accountants shall be an independent accounting firm selected by such Debtor and reasonably acceptable to Secured Party, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of such Debtor and their Subsidiaries as of the end of and for the fiscal year then ended.

(b) Each Debtor shall promptly notify Secured Party in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in such Debtor's business, properties, assets, goodwill or condition, financial or otherwise, (ii) any order, judgment or decree in excess of \$25,000 shall have been entered against any Debtor or any of its properties or assets, (iii) any notification of violation of laws or regulations received by such Debtor, and (iv) the occurrence of any Event of Default and act, condition or event which with notice or passage of time or both would constitute an Event of Default.

(c) Each Debtor shall promptly after the sending or filing thereof furnish or cause to be furnished to Secured Party copies of all reports which Debtors send to their stockholders generally and copies of all reports and registration statements which any Debtor files with the Securities and Exchange Commission, any national securities exchange or the National Association of Securities Dealers, Inc.

(d) Each Debtor shall furnish or cause to be furnished to Secured Party such budgets, forecasts, projections and other information respecting the Collateral and the business of such Debtor, as Secured Party may, from time to time, reasonably request. Secured Party is hereby authorized to deliver a copy of any financial statement or any other information relating to Debtors to any court or other governmental authority, to any affiliate of Secured Party or to any participant or assignee or prospective participant or assignee. Each Debtor hereby irrevocably authorize and direct all accountants or auditors to deliver to Secured Party, at such Debtor's expense, copies of the financial statements of such Debtor and any reports or management letters prepared by such accountants or auditors on behalf of such Debtor and to disclose to Secured Party such information as they may have regarding the business of such Debtor. Any documents, schedules, invoices or other papers delivered to Secured Party may be destroyed or otherwise disposed of by Secured Party one (1) year after the same are delivered to Secured Party, except as otherwise designated by a Debtor to Secured Party in writing.

5.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Debtors shall not, directly or indirectly, (a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, or (b) sell, assign, lease, transfer, abandon or otherwise dispose of any capital stock or indebtedness to any other Person or any of its assets to any other Person (except for (i) sales of Inventory in the ordinary course of business and (ii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of Debtors so long as (A) any proceeds are paid to Secured Party and (B) such sales do not involve Equipment having an aggregate fair market value in excess of \$25,000 for all such Equipment disposed of in any fiscal year of Debtors), or (c) form or acquire any subsidiaries, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing.

US OBLIGORS GSA

5.8 Encumbrances. Debtors shall not create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Secured Party; (b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Debtors and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Debtors' business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Debtors, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on their books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Debtors as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) purchase money security interests in Equipment (including capital leases) and purchase money mortgages on real estate not to exceed \$50,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Debtors other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; and (f) the security interests and liens set forth on Schedule 4.4 hereto.

5.9 Indebtedness. Debtors shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any other Person, except (a) the Obligations; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which a Debtor is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to such Debtor, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement; and (d) the obligations, indebtedness and guarantees set forth on its own Information Certificate; provided, that, (i) Debtors may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof, (ii) Debtors shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such obligations, indebtedness or guarantees or any agreement, document or instrument related thereto as in effect on the date hereof, or (B) redeem, retire, defease, purchase or otherwise acquire such obligations, indebtedness or guarantees or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Debtors shall furnish to Secured Party all notices or demands in connection with such obligations, indebtedness or guarantees either received by such Debtor or on its behalf, promptly after the receipt thereof, or sent by such Debtor or on its behalf, concurrently with the sending thereof, as the case may be.

5.10 Loans, Investments, Etc. Debtors shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or

US OBLIGORS GSA

otherwise) or purchase or repurchase the capital stock or indebtedness or all or a substantial part of the assets or property of any person or form or acquire any subsidiaries, or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in: (i) short-term direct obligations of the United States Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Secured Party, payable to the order of a Debtor or to bearer and delivered to Secured Party, and (iii) commercial paper rated A1 or P1; provided, that, as to any of the foregoing, unless waived in writing by Secured Party, a Debtor shall take such actions as are deemed necessary by Secured Party to perfect the security interest of Secured Party in such investments and (c) the loans and advances set forth on a Debtor's Information Certificate; provided, that, as to such loans and advances, (i) Debtors shall not, directly or indirectly, amend, modify, alter or change the terms of such loans or advances or any agreement, document or instrument relating thereto, and (ii) Debtors shall furnish to Secured Party all notices or demands in connection with such loans, or advances either received by such Debtor or on its behalf, promptly after the receipt thereof, or sent by such Debtor or on its behalf, concurrently with the sending thereof, as the case may be.

5.11 Dividends and Redemptions. Debtors shall not, directly or indirectly, declare or pay any dividends on account of any shares of class of capital stock of Debtors now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing.

5.12 Transactions with Affiliates. Debtors shall not, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with Debtors, except in the ordinary course of and pursuant to the reasonable requirements of Debtors' businesses and upon fair and reasonable terms no less favorable to a Debtor than such Debtor would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with a Debtor except reasonable compensation to officers, employees and directors for services rendered to such Debtor in the ordinary course of business.

5.13 Costs and Expenses. Debtors shall pay to Secured Party on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Secured Party's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) insurance premiums, appraisal fees and search fees; (c) costs and expenses of preserving and protecting the Collateral; (d) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Secured Party, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this

US OBLIGORS GSA

Agreement and the other Financing Agreements or defending any claims made or threatened against Secured Party arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); and (e) the fees and disbursements of counsel (including legal assistants) to Secured Party in connection with any of the foregoing.

5.14 Further Assurances. At the request of Secured Party at any time and from time to time, each Debtor shall, at its expense, at any time or times duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements.

SECTION 6. EVENTS OF DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence or existence of any Event of Default under either the US Loan Agreement or Canadian Loan Agreement is referred to herein individually as an “Event of Default”, and collectively as “Events of Default”.

6.2 Remedies

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

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Secured Party may, for itself and the ratable benefit of Tranche B Agent and Lenders and subject to the terms of the Loan Agreements, in its discretion and, without limitation, (i) accelerate the payment of all Obligations and demand immediate payment thereof to Secured Party (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h) of the US Loan Agreement or the Canadian Loan Agreement, all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require Debtors, at Debtors’ expense, to assemble and make available to Secured Party any part or all of the Collateral at any place and time designated by Secured Party, (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises

US OBLIGORS GSA

on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, and/or (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Secured Party or elsewhere) at such prices or terms as Secured Party may deem reasonable, for cash, upon credit or for future delivery, with the Secured Party having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Debtors, which right or equity of redemption is hereby expressly waived and released by Debtors. If any of the Collateral is sold or leased by Secured Party upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Secured Party. If notice of disposition of Collateral is required by law, ten (10) days prior notice by Secured Party to any Debtor designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and such Debtor waives any other notice. In the event Secured Party institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, each Debtor waives the posting of any bond which might otherwise be required.

(c) Secured Party may, at any time or times that an Event of Default exists or has occurred and is continuing, enforce any Debtor's rights against any account debtor, secondary obligor or other obligor in respect of any of the Accounts or other Receivables. Without limiting the generality of the foregoing, Secured Party may at such time or times (i) notify any or all account debtors, secondary obligors or other obligors in respect thereof that the Receivables have been assigned to Secured Party and that Secured Party has a security interest therein and Secured Party may direct any or all account debtors, secondary obligors and other obligors to make payment of Receivables directly to Secured Party, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Receivables or other obligations included in the Collateral and thereby discharge or release the account debtor or any secondary obligors or other obligors in respect thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any Receivables or such other obligations, but without any duty to do so, and Secured Party shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (iv) take whatever other action Secured Party may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Secured Party's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Secured Party and are payable directly and only to Secured Party and each Debtor shall deliver to Secured Party such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Secured Party may require. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, applicable Debtor shall, upon Secured Party's request, hold the returned Inventory in trust for Secured Party, segregate all returned Inventory from all of its other property, dispose of the returned Inventory solely according to Secured Party's instructions, and not issue any credits, discounts or allowances with respect thereto without Secured Party's prior written consent.

(d) To the extent that applicable law imposes duties on Secured Party to exercise remedies in a commercially reasonable manner (which duties cannot be waived under

US OBLIGORS GSA

such law), each Debtor acknowledges and agrees that it is not commercially unreasonable for Secured Party (i) to fail to incur expenses reasonably deemed significant by Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain consents of any governmental authority or other third party for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against account debtors, secondary obligors or other persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (iv) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other persons, whether or not in the same business as Debtors for expressions of interest in acquiring all or any portion of the Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, (xi) to purchase insurance or credit enhancements to insure Secured Party against risks of loss, collection or disposition of Collateral or to provide to Secured Party a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Secured Party in the collection or disposition of any of the Collateral. Each Debtor acknowledges that the purpose of this Section is to provide non-exhaustive indications of what actions or omissions by Secured Party would not be commercially unreasonable in Secured Party's exercise of remedies against the Collateral and that other actions or omissions by Secured Party shall not be deemed commercially unreasonable solely on account of not being indicated in this Section. Without limitation of the foregoing, nothing contained in this Section shall be construed to grant any rights to a Debtor or to impose any duties on Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section.

(e) For the purpose of enabling Secured Party to exercise the rights and remedies hereunder, each Debtor hereby grant to Secured Party, to the extent assignable, an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to any Debtor) to use, assign, license or sublicense any of the trademarks, service-marks, trade names, business names, trade styles, designs, logos and other source of business identifiers and other Intellectual Property and general intangibles now owned or hereafter acquired by any Debtor, wherever the same maybe located, including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout thereof.

(f) Secured Party shall apply the cash proceeds of Collateral actually received by Secured Party from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in accordance with the Loan Agreements. Each Debtor shall remain liable to Secured Party, Tranche B Agent and Lenders for the payment of any deficiency with interest at the highest rate provided for in the Loan Agreements and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

US OBLIGORS GSA

SECTION 7. JURY TRIAL WAIVER; GOVERNING LAW OTHER WAIVERS AND CONSENTS

7.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois but excluding any principles of conflicts of law or other rule of law that would cause the application of the law of any jurisdiction other than the laws of the State of Illinois.

(b) Each Debtor and Secured Party irrevocably consent and submit to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois, whichever Secured Party may elect, and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Secured Party shall have the right to bring any action or proceeding against any Debtor or its property in the courts of any other jurisdiction which Secured Party deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against any Debtor or its property).

(c) Each Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Secured Party's option, by service upon a Debtor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, such Debtor shall appear in answer to such process, failing which such Debtor shall be deemed in default and judgment may be entered by Secured Party against such Debtor for the amount of the claim and other relief requested.

(d) EACH DEBTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF A DEBTOR AND SECURED PARTY IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH DEBTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT A DEBTOR OR SECURED PARTY MAY FILE AN

US OBLIGORS GSA

ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF DEBTOR AND SECURED PARTY TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Secured Party shall not have any liability to any Debtor (whether in tort, contract, equity or otherwise) for losses suffered by a Debtor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Secured Party that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Secured Party shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement and the other Financing Agreements.

7.2 Waiver of Notices. Each Debtor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on a Debtor which Secured Party may elect to give shall entitle any Debtor to any other or further notice or demand in the same, similar or other circumstances.

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

7.4 Waiver of Counterclaims. Each Debtor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

7.5 Indemnification. Each Debtor shall indemnify and hold Secured Party, Tranche B Agent, Lenders, and their respective directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable

US OBLIGORS GSA

because it violates any law or public policy, each Debtor shall pay the maximum portion which it is permitted to pay under applicable law to Secured Party in satisfaction of indemnified matters under this Section. To the extent permitted by applicable law, each Debtor shall not assert, and each Debtor hereby waives, any claim against Secured Party, Tranche B Agent or any Lender on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any of the other Financing Agreements or any undertaking or transaction contemplated hereby. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of the US Loan Agreement and the Canadian Loan Agreement.

SECTION 8. MISCELLANEOUS

8.1 Interpretative Provisions.

(a) All terms used herein which are defined in Article 1 or Article 9 of the UCC shall have the meanings given therein unless otherwise defined in this Agreement.

(b) All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires.

(c) All references to a Debtor and Secured Party pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns.

(d) The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(e) The word “including” when used in this Agreement shall mean “including, without limitation”.

(f) All references to the term “good faith” used herein when applicable to Secured Party shall mean, notwithstanding anything to the contrary contained herein or in the UCC, honesty in fact in the conduct or transaction concerned. Each Debtor shall have the burden of proving any lack of good faith on the part of Secured Party alleged by a Debtor at any time.

(g) An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 7.3 or is cured in a manner satisfactory to Secured Party, if such Event of Default is capable of being cured as determined by Secured Party.

(h) Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the financial statements of each Debtor most recently received by Secured Party prior to the date hereof.

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(i) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”, the words “to” and “until” each mean “to but excluding” and the word “through” means “to and including”.

(j) Unless otherwise expressly provided herein, (i) references herein to any agreement, document or instrument shall be deemed to include all subsequent amendments, modifications, supplements, extensions, renewals, restatements or replacements with respect thereto, but only to the extent the same are not prohibited by the terms hereof or of any other Financing Agreement, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, recodifying, supplementing or interpreting the statute or regulation.

(k) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(l) This Agreement and other Financing Agreements may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(m) This Agreement and the other Financing Agreements are the result of negotiations among and have been reviewed by counsel to Secured Party and the other parties, and are the products of all parties. Accordingly, this Agreement and the other Financing Agreements shall not be construed against Secured Party merely because of Secured Party’s involvement in their preparation.

8.2 Notices. All notices, requests and demands hereunder shall be in writing and deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail, return receipt requested, five (5) days after mailing. All notices, requests and demands upon the parties are to be given to the following addresses (or to such other address as any party may designate by notice in accordance with this Section):

If to Debtors: 635 Hood Road
Markham, Ontario
L3R 4N6
Attention: Chief Financial Officer
Telephone No.: 905.479.1810
Telecopy No.: 905.479.5326

If to Secured Party: Wachovia Capital Finance Corporation
(Central), as Secured Party
150 South Wacker Drive
Suite 2200
Chicago, Illinois, 60606
Attention: Portfolio Manager
Telephone No.: 312.332.0420
Telecopy No.: 312.332.0424

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with a copy to: Wachovia Capital Finance Corporation (Canada)
141 Adelaide Street West
Suite 1500
Toronto, Ontario, M5H 3L9
Attention: Portfolio Manager
Telephone No.: 416.364.6080
Telecopy No.: 416.364.6068

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

8.4 No Novation. This Agreement does not discharge or release the obligations under the Original US Loan Agreement, the Original Canadian Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreements) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original US Loan Agreement, the Original Canadian Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of any Borrower or any Obligor under the Original Financing Agreements from any of its obligations and liabilities as a "Borrower" or "Obligor" thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to "the Original Loan Agreement," "thereto," "thereof," "thereunder" or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Secured Party a security interest in or Lien (as such term is defined in the Loan Agreements) on, any collateral as security for the obligations of the Borrower or any Obligors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreements) is hereby ratified and confirmed in all respects.

8.5 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon each Debtor and its successors and assigns and inure to the benefit of and be enforceable by Secured Party and its successors and assigns, except that each Debtor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Secured Party.

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

[Signature Page Follows]

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IN WITNESS WHEREOF, each Debtor has caused these presents to be duly executed as of the day and year first above written.

SMTC CORPORATION

Per: _____
Name:
Title:

Per: _____
Name:
Title:

HTM HOLDINGS, INC.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

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SMTC GROUP HOLDINGS, LLC

By: SMTC CORPORATION, its sole member

Per: _____

Name:

Title:

Per: _____

Name:

Title:

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EXHIBIT "A"
INFORMATION CERTIFICATES

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SCHEDULE 4.4

SECURITY INTERESTS AND LIENS

Nil.

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AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

This Amended and Restated General Security Agreement dated August 10, 2007 is made by SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada, an Ontario corporation (together with its successors and assigns, "**Borrower**") in favour of Wachovia Capital Finance Corporation (Canada) (formerly, Congress Financial Corporation (Canada) ("**Congress**")), an Ontario corporation, for and on behalf of itself and as agent (in such capacity, together with its successors and assigns, the "**Agent**") for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity and together with any successors and assigns, if any, the "**Tranche B Agent**") and the lenders that from time to time are party to the Loan Agreement (as defined below) (collectively, the "**Lenders**"), pursuant to the Loan Agreement.

WITNESSETH

WHEREAS Congress has entered into certain financing arrangements with Borrower and its affiliates as set out in a loan agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the "**Original Loan Agreement**") pursuant to which Congress made loans and provided other financial accommodations to Borrower and its affiliates;

WHEREAS in connection with the Original Loan Agreement, Borrower has executed and delivered a general security agreement dated as of June 1, 2004 (the "**Original GSA**") and other Original Financing Agreements (as defined below);

WHEREAS Borrower, Agent, Tranche B Agent and Lenders have agreed to amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the "**Loan Agreement**") and agreed to amend and restate the Original GSA pursuant to this Amended and Restated General Security Agreement (the "**Agreement**"); and

WHEREAS, in order to induce Agent, Tranche B Agent and Lenders to enter into the Loan Agreement and the other Financing Agreements (as defined below) and to make the loans under the Loan Agreement, and as a condition precedent thereto, Agent, Tranche B Agent and Lenders require that Borrower shall have executed and delivered this Agreement to secure the obligations of Borrower to Agent, Tranche B Agent and Lenders under the Loan Agreement.

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

SECTION 1
DEFINITIONS

All terms used herein which are defined in the PPSA (as such term is defined below) shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Borrower, Agent, Tranche B Agent, Lender or to any other person herein, shall include their respective successors and assigns. The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “including” when used in this Agreement shall mean “including, without limitation”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted and/or consolidated from time to time and any successor statute thereto. An Event of Default (as such term is defined below) shall exist or continue or be continuing until such Event of Default is waived in accordance with the applicable agreement. “Canadian Dollars” and the sign “\$” mean lawful money of Canada. “US Dollars” and the sign “US\$” mean lawful money of the United States of America. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 “Accounts” shall mean all present and future rights of Borrower to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 “Agent” shall have the meaning set forth in the Recitals hereto.

1.3 “BIA” means the *Bankruptcy and Insolvency Act* (Canada) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

1.4 “Borrower” shall have the meaning set forth in the Recitals hereto.

1.5 “Business Day” shall mean a day (other than a Saturday, Sunday or statutory holiday in Ontario, Illinois or New York) on which Agent’s Toronto office, the Canadian Reference Bank’s (as defined in the Loan Agreement) main Toronto office and banks in Chicago, Toronto and New York City are open for business in the normal course.

1.6 “CAA” means the *Companies’ Creditors Arrangement Act* (Canada) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

1.7 “Collateral” shall have the meaning set forth in Section 2 hereof.

1.8 “Equipment” shall mean all of Borrower’s now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

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1.9 “Event of Default” shall have the meaning set forth in Section 6.1 hereof.

1.10 “Financing Agreements” shall mean, collectively, the Loan Agreement, this Agreement, and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with the Loan Agreement as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 “Information Certificate” shall mean the Information Certificate of the Borrower constituting Exhibit A to the Loan Agreement.

1.12 “Inventory” shall mean all of Borrower’s now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.13 “Lenders” shall have the meaning set forth in the Recitals hereto.

1.14 “Loan Agreement” shall have the meaning set forth in the Recitals hereto.

1.15 “Obligations” shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by Borrower to Agent, Tranche B Agent, Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement, this Agreement, the Financing Agreements, any guarantee or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any proceeding with respect to Borrower or any of its affiliates under the BIA, the CCAA or any similar statute in any jurisdiction (including, the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent, Lenders and/or their affiliates.

1.16 “Obligor” shall mean any other guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Borrower.

1.17 “Original Financing Agreements” shall mean collectively the Original Loan Agreement, the Original GSA and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with the Original Loan Agreement.

CAN BORROWER GSA

1.18 “Person” or **“person”** shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.19 “PPSA” shall mean the *Personal Property Security Act* (Ontario) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

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

1.21 “Tranche B Agent” shall have the meaning set forth in the Recitals hereto.

SECTION 2

GRANT OF SECURITY INTEREST

2.1 To secure payment and performance of all Obligations, Borrower hereby grants to Agent for itself and for the ratable benefit of Tranche B Agent and Lenders a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Agent for itself and for the ratable benefit of Tranche B Agent and Lenders as security, all of the Borrower’s right, title and interest, both present and future in all of its present, owned or held and after-acquired or held personal property of whatsoever nature or kind and wheresoever situate including, without limitation, the following property and interests in property of Borrower, whether now owned or hereafter acquired or existing, and wherever located (collectively, the **“Collateral”**):

- (a) Accounts;
- (b) all present and future contract rights, general intangibles (including tax and duty refunds, registered and unregistered patents, trademarks, service marks, copyrights, trade names, industrial designs, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, securities and other investment property, letters of credit, bankers’ acceptances and guarantees including, without limitation, the intellectual property listed in Schedule 2.2 attached hereto;

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- (c) all present and future monies, securities, credit balances, deposits, deposit accounts and other property of Borrower now or hereafter held or received by or in transit to Agent or its affiliates or at any other depository or other institution from or for the account of Borrower whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including:
 - (i) rights and remedies under or relating to guarantees, contracts of suretyship, letters of credit and other insurance related to the Collateral;
 - (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party;
 - (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including, returned, repossessed and reclaimed goods; and
 - (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;
 - (d) Inventory;
 - (e) Equipment;
 - (f) Records; and
 - (g) all products and proceeds of the foregoing, in any form, including, insurance proceeds and any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

Notwithstanding the foregoing, Collateral shall not include:

- (h) the last day of the term of any lease (but upon the enforcement of Agent's rights hereunder, Agent shall stand possessed of such last day in trust to assign the same to any person acquiring such term); or
- (i) any Consumer Goods.

SECTION 3 **COLLATERAL COVENANTS**

3.1 Accounts Covenants.

- (a) Agent shall have the right at any time or times, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

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- (b) Borrower shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to Borrower, all chattel paper and instruments which Borrower now owns or may at any time acquire immediately upon Borrower's receipt thereof, except as Agent may otherwise agree.
 - (c) Agent may, at any time or times that an Event of Default exists or has occurred and is continuing:
 - (i) notify any or all account debtors that the Accounts have been assigned to Agent and that Agent has a security interest therein and Agent may direct any or all accounts debtors to make payment of Accounts directly to Agent;
 - (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations;
 - (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Agent shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto; and
 - (iv) take whatever other action Agent may deem necessary or desirable for the protection of its interests.

At any time that an Event of Default exists or has occurred and is continuing, at Agent's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Agent and are payable directly and only to Agent and Borrower shall deliver to Agent such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Agent may require.

3.2 Inventory Covenants. With respect to the Inventory:

- (a) Borrower shall at all times maintain inventory records reasonably satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrower's cost therefore;
- (b) Borrower shall not remove any Inventory from the locations set forth on the Information Certification otherwise permitted herein, without the prior written

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consent of Agent, except for sales of Inventory in the ordinary course of Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location;

- (c) Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws;
- (d) Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory;
- (e) Borrower shall keep the Inventory in good and marketable condition; and
- (f) Borrower shall not, without prior written notice to Agent, acquire or accept any Inventory on consignment or approval.

3.3 Equipment Covenants. With respect to the Equipment:

- (a) upon Agent's request, Borrower shall, at its expense, at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Agent and by appraiser acceptable to Agent;
- (b) Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted);
- (c) Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws;
- (d) the Equipment is and shall be used in Borrower's business and not for personal, family, household or farming use;
- (e) Borrower shall not remove any Equipment from the locations set forth on the Information Certificate, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of Borrower or to move Equipment directly from one location set forth on the Information Certificate to another such location and except for the movement of motor vehicles used by or for the benefit of Borrower in the ordinary course of business;
- (f) the Equipment is now and shall remain personal property and Borrower shall not permit any of the Equipment to be or become a part of or affixed to real property; and
- (g) Borrower assumes all responsibility and liability arising from the use of the Equipment.

CAN BORROWER GSA

3.4 Power of Attorney. Borrower hereby irrevocably designates and appoints Agent for itself and for the ratable benefit of Tranche B Agent and Lenders (and all persons designated by Agent) as Borrower's true and lawful attorney-in-fact, and authorizes Agent, in Borrower's or Agent's name, to:

- (a) at any time an Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing;
 - (i) demand payment on Accounts or other proceeds of Collateral;
 - (ii) enforce payment of Accounts by legal proceedings or otherwise;
 - (iii) exercise all of Borrower's rights and remedies to collect any Account or other Collateral;
 - (iv) sell or assign any Account upon such terms, for such amount and at such time or times as Agent deems advisable;
 - (v) settle, adjust, compromise, extend or renew an Account;
 - (vi) discharge and release any Account;
 - (vii) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor;
 - (viii) notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by Agent, and open and dispose of all mail addressed to Borrower; and
 - (ix) do all acts and things which are necessary, in Agent's determination, to fulfill Borrower's obligations under this Agreement and the other Financing Agreements; and
- (b) at any time to:
 - (i) take control in any manner of any item of payment or proceeds thereof;
 - (ii) have access to any lockbox or postal box into which Borrower's mail is deposited;
 - (iii) endorse Borrower's name upon any items of payment or proceeds thereof and deposit the same in Agent's account for application to the Obligations;

CAN BORROWER GSA

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- (iv) endorse Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral; and
 - (v) sign Borrower's name on any verification of Accounts and notices thereof to account debtors; and
 - (vi) execute in Borrower's name and file any PPSA or other financing statements or amendments thereto.

Borrower hereby releases Agent and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

3.5 Right to Cure. Agent may, at its option,

- (a) cure any default by Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against Borrower;
- (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral; and
- (c) pay any amount, incur any expense or perform any act which, in Agent's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent's with respect thereto.

Agent may add any amounts so expended to the Obligations and charge Borrower's account therefor, such amounts to be repayable by Borrower on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Borrower. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

3.6 Access to Premises. From time to time as requested by Agent, at the cost and expense of Borrower,

- (a) Agent or its designee shall have complete access to all of Borrower's premises during normal business hours and after notice to Borrower, or at any time and without notice to Borrower if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrower's books and records, including, the Records; and
- (b) Borrower shall promptly furnish to Agent such copies of such books and records or extracts therefrom as Agent may request; and

CAN BORROWER GSA

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- (c) use during normal business hours such of Borrower's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 4
REPRESENTATIONS AND WARRANTIES

4.1 Borrower hereby represents and warrants to Agent, Tranche B Agent and Lenders the following (which shall survive the execution and delivery of this Agreement):

- (a) **Loan Agreement.** Each of the representations and/or warranties contained in the Loan Agreement is true and correct in all material respects.
- (b) **Survival of Warranties; Cumulative.** All representations and warranties contained in this Agreement or any of the other Financing Agreements to which Borrower is a party shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Agent on the date of each additional borrowing or other credit accommodation under the Loan Agreement and shall be conclusively presumed to have been relied on by Agent regardless of any investigation made or information possessed by Agent. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Borrower shall now or hereafter give, or cause to be given, to Agent.

SECTION 5
AFFIRMATIVE AND NEGATIVE COVENANTS

5.1 Loan Agreement Covenants. Borrower hereby agrees and covenants to comply with each and every agreement and covenant it makes and/or has made pursuant to the Loan Agreement.

5.2 Further Assurances. At the request of Agent at any time and from time to time, Borrower shall, at its expense, at any time or times duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements to which it is a party. Where permitted by law, the Borrower hereby authorizes Agent to execute and file one or more PPSA and other financing statements signed only by Agent.

CAN BORROWER GSA

SECTION 6
EVENTS OF DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence or existence of any Event of Default under the Loan Agreement is referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”.

6.2 Remedies.

- (a) At any time an Event of Default exists or has occurred and is continuing, Agent shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the PPSA and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Agent hereunder, under any of the other Financing Agreements, the PPSA or other applicable law, are cumulative, not exclusive and enforceable, in Agent’s discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Borrower of this Agreement or any of the other Financing Agreements to which Borrower is a party. Agent may, at any time or times, proceed directly against Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral or any collateral at any time granted by Borrower or any Obligor to Agent.
- (b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Agent may for itself and the ratable benefit of Tranche B Agent and Lenders subject to the terms of the Loan Agreement, in its discretion and without limitation;
 - (i) accelerate the payment of all Obligations and demand immediate payment thereof to Agent (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h) of the Loan Agreement, all Obligations shall automatically become immediately due and payable);
 - (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and/or carry on the business of Borrower;

CAN BORROWER GSA

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- (iii) require Borrower, at Borrower's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent;
 - (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral;
 - (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose;
 - (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Agent or elsewhere) at such prices or terms as Agent may deem reasonable, for cash, upon credit or for future delivery, with Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Borrower, which right or equity of redemption is hereby expressly waived and released by Borrower to the extent permitted by applicable law;
 - (vii) borrow money and use the Collateral directly or indirectly in carrying on Borrower's business or as security for loans or advances for any such purposes; and/or
 - (viii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with Borrower, account debtors of Borrower, sureties and others as Agent may see fit without prejudice to the liability of Borrower or Agent's right to hold and realize the security interest created under this Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, five (5) days prior notice by Agent to Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Borrower waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Borrower waives the posting of any bond which might otherwise be required.
- (c) Agent shall apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in accordance with the Loan Agreement. Borrower shall remain liable to Agent for the payment of any deficiency with interest at the highest rate provided for in the Loan Agreement.

CAN BORROWER GSA

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- (d) Agent may appoint, remove and reappoint any person or persons, including an employee or agent of Agent to be a receiver (the “**Receiver**”) which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of Borrower and not of Agent, and Agent shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Agent, all money received by such Receiver shall be received in trust for and paid to Agent. Such Receiver shall have all of the powers and rights of Agent described in this Section 6.2. Agent may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.
- (e) Borrower shall pay all costs, charges and expenses incurred by Agent, any Lender or any Receiver, whether directly or for services rendered (including, solicitor’s costs on a solicitor and his own client basis, auditor’s costs, other legal expenses and Receiver remuneration) in enforcing this Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

SECTION 7

JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

7.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

- (a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to principles of conflicts of laws).
- (b) Borrower irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected or related or incidental to the dealings of Borrower and Agent in respect of this Agreement or the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute with respect to any such matters shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Borrower or its property).

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- (c) To the extent permitted by law, Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Borrower shall appear in answer to such process, failing which Borrower shall be deemed in default and judgment may be entered by Agent against Borrower for the amount of the claim and other relief requested.
- (d) BORROWER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF BORROWER AND AGENT IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. BORROWER HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT BORROWER OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF BORROWER AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Agent shall not have any liability to Borrower (whether in tort, contract, equity or otherwise) for losses suffered by Borrower in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions of Agent constituting gross negligence or willful misconduct. In any such litigation, the Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement and the other Financing Agreements.
- (f) Borrower hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Agent from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or

CAN BORROWER GSA

levy upon the Collateral or other security for the Obligations. Borrower waives the posting of any bond otherwise required of Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Agent or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, the Loan Agreement or any other Financing Agreement.

7.2 Waiver of Notices. Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Borrower which Agent may elect to give shall entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

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

7.4 Waiver of Counterclaims. Borrower waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

7.5 Indemnification. Borrower shall indemnify and hold Agent and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion which it is permitted to pay under applicable law to Agent in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Loan Agreement. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.

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SECTION 8
MISCELLANEOUS

8.1 Notices. All notices, requests and demands hereunder shall be in writing and

- (a) made to Agent at 141 Adelaide Street West, Suite 1500, Toronto, Ontario, M5H 3L9 and to Borrower at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
- (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by registered mail, return receipt requested, five (5) days after mailing.

8.2 Judgment Currency. To the extent permitted by applicable law, the obligations of Borrower in respect of any amount due under this Agreement and other Financing Agreements to which Borrower is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent, may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent, receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Borrower shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Borrower not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

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

8.4 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon Borrower and its successors and assigns and inure to the benefit of and be enforceable by Agent and its successors and assigns, except that Borrower may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein to which it is a party without the prior written consent of Agent.

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8.5 Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

8.6 No Novation. This Agreement does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of the Borrower or any Obligor under the Original Financing Agreements from any of its obligations and liabilities as “Borrower” or “Obligor” thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to “the Original Loan Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or any Obligors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.

8.7 Attachment. The security interest created hereby is intended to attach when this Agreement is executed by Borrower and delivered to Agent.

8.8 Headings. The division of this agreement into Sections and the insertion of headings are for convenience only and shall not affect the construction or interpretation of this Agreement.

8.9 Acknowledgement. Borrower acknowledges receipt of a copy of this Agreement.

8.10 Facsimile. This Agreement may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, Borrower has caused these presents to be duly executed as of the day and year first above written.

**SMTC MANUFACTURING
CORPORATION OF CANADA/SOCIETE
DE FABRICATION SMTC DU CANADA**

Per: _____

Name:

Title:

Per: _____

Name:

Title:

Chief Executive Office:

635 Hood Road

Markham, Ontario L3R 4N6

Fax: (905) 479-5326

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**EXHIBIT A
INFORMATION CERTIFICATE**

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**SCHEDULE 2.2
INTELLECTUAL PROPERTY**

**TRADEMARKS
(Canadian)**

(TRADEMARK REGISTRATIONS)

<u>Trademark</u>	<u>Application No.</u>	<u>Registration No.</u>	<u>Renewal Date</u>	<u>Registration Date</u>
SMTC logo		493612	23 April 2013	

(TRADEMARK APPLICATIONS)

<u>Trademark</u>	<u>Application No.</u>	<u>Filing Date</u>
NIL		

CAN BORROWER GSA

PATENTS

<u>Title</u>	<u>Patent No.</u>	<u>Issuance Date</u>
NIL		

(PATENT APPLICATIONS)

<u>Title</u>	<u>Application No.</u>	<u>Filing Date</u>
NIL		

**INDUSTRIAL DESIGNS
(indicate if Cdn. or US)**

NIL

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COPYRIGHTS

NIL

LICENSOR LICENSING AGREEMENTS

NIL

LICENSEE LICENSING AGREEMENTS

NIL

OTHER INTELLECTUAL PROPERTY

NIL

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AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

This Amended and Restated General Security Agreement dated August 10, 2007 is made by SMTC Nova Scotia Company, a company incorporated under the laws of the Province of Nova Scotia (the “**Guarantor**”) in favour of Wachovia Capital Finance Corporation (Canada) (formerly, Congress Financial Corporation (Canada) (“**Congress**”), an Ontario corporation, for and on behalf of itself and as agent (in such capacity, together with its successors and assigns, the “**Agent**”) for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity and together with any successors and assigns, if any, the “**Tranche B Agent**”) and the lenders that from time to time are party to the Loan Agreement (as defined below) (collectively, the “**Lenders**”) pursuant to the Loan Agreement.

WITNESSETH

WHEREAS Congress has entered into certain financing arrangements with Borrower (as defined below) and its affiliates as set out in a loan agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the “**Original Loan Agreement**”) pursuant to which Congress made loans and provided other financial accommodations to Borrower and its affiliates;

WHEREAS Guarantor is an affiliate of Borrower and as such has derived direct and indirect economic benefits from the making of the loans and other financial accommodations which have been provided to Borrower pursuant to the Original Loan Agreement;

WHEREAS Guarantor has executed and delivered a guarantee dated as of June 1, 2004 (the “**Original Guarantee**”) and a general security agreement dated as of June 1, 2004 (the “**Original GSA**”) in favour of Congress in respect of all obligations, liabilities and indebtedness of any kind, nature and description of Borrower to Congress;

WHEREAS Borrower, Tranche B Agent and Lenders have agreed to amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Loan Agreement**”), to amend and restate the Original Guarantee pursuant to an amended and restated guarantee dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the “**Guarantee**”) and to amend and restate the Original GSA pursuant to this Amended and Restated General Security Agreement (the “**Agreement**”); and

WHEREAS, in order to induce Agent, Tranche B Agent and Lenders to enter into the Loan Agreement and the other Financing Agreements (as defined below) and to make the loans under the Loan Agreement, and as a condition precedent thereto, Agent, Tranche B Agent and Lenders require that Guarantor shall have executed and delivered this Agreement to secure the obligations of Guarantor to Agent, Tranche B Agent and Lenders under the Guarantee.

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

SECTION 1 DEFINITIONS

All terms used herein which are defined in the PPSA (as such term is defined below) shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Borrower, Agent, Tranche B Agent, Lender, Guarantor or to any other person herein, shall include their respective successors and assigns. The words “hereof”, “herein”, “hereunder”, “this Agreement” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “including” when used in this Agreement shall mean “including, without limitation”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted and/or consolidated from time to time and any successor statute thereto. An Event of Default (as such term is defined below) shall exist or continue or be continuing until such Event of Default is waived in accordance with the applicable agreement. “Canadian Dollars” and the sign “\$” mean lawful money of Canada. “US Dollars” and the sign “US\$” mean lawful money of the United States of America. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 “Accounts” shall mean all present and future rights of the Guarantor to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 “Agent” shall have the meaning set forth in the Recitals hereto.

1.3 “BIA” means the *Bankruptcy and Insolvency Act* (Canada) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

1.4 “Borrower” shall mean SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada, an Ontario corporation, and its successors and assigns.

1.5 “Business Day” shall mean a day (other than a Saturday, Sunday or statutory holiday in Ontario, Illinois or New York) on which Agent’s Toronto office and banks in Chicago, Toronto and New York City are open for business in the normal course.

1.6 “CAA” means the *Companies’ Creditors Arrangement Act* (Canada) as it may from time to time be amended, supplemented, re-enacted or succeeded by successor legislation of comparable effect.

1.7 “Collateral” shall have the meaning set forth in Section 2.1 hereof.

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1.8 “Equipment” shall mean all of Guarantor’s now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.9 “Event of Default” shall have the meaning set forth in Section 6.1 hereof.

1.10 “Financing Agreements” shall mean, collectively, the Loan Agreement, the Guarantee, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower, Guarantor or any Obligor in connection with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 “GAAP” shall mean generally accepted accounting principles in Canada as in effect from time to time as set forth in the opinions and pronouncements of the relevant Canadian public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied.

1.12 “Guarantee” shall have the meaning set forth in the Recitals hereto.

1.13 “Guarantor” shall have the meaning set forth in the Recitals hereto.

1.14 “Information Certificate” shall mean the Information Certificate of Guarantor constituting Exhibit A hereto containing material information with respect to Guarantor, its business and assets provided by or on behalf of Guarantor to Agent in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.15 “Inventory” shall mean all of Guarantor’s now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.16 “Lenders” shall have the meaning set forth in the Recitals hereto.

1.17 “Loan Agreement” shall have the meaning set forth in the Recitals hereto.

1.18 “Obligations” shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by Guarantor to Agent, Tranche B Agent, Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantors or otherwise, whether arising under the Loan Agreement, the Guarantee, this Agreement, the Financing Agreements, any guarantee or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to Guarantor or any of its affiliates under the BIA, CCAA or any similar statute in

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any jurisdiction (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent, Lenders and/or their affiliates.

1.19 “Obligor” shall mean any other guarantors, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Guarantor.

1.20 “Original Financing Agreements” shall mean collectively the Original Loan Agreement, the Original Guarantee, the Original GSA and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower, Guarantor or any Obligor in connection with the Original Loan Agreement.

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

1.22 “SMTC Corporation” shall mean SMTC Corporation, a Delaware corporation, and its successors and assigns.

1.23 “Tranche B Agent” shall have the meaning set forth in the Recitals hereto.

SECTION 2

GRANT OF SECURITY INTEREST

2.1 To secure payment and performance of all Obligations, Guarantor hereby grants to Agent for itself and for the ratable benefit of Tranche B Agent and Lenders a continuing security interest in, a lien upon, and a right of set-off against, and hereby assigns to Agent for itself and for the ratable benefit of Tranche B Agent and Lenders as security, the following property and interests in property of Guarantor, whether now owned or hereafter acquired or existing, and wherever located (collectively, the “**Collateral**”):

- (a) Accounts;
- (b) all present and future contract rights, general intangibles (including tax and duty refunds, registered and unregistered patents, trademarks, service marks, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, securities and other investment property, letters of credit, bankers’ acceptances and guarantees;

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- (c) all present and future monies, securities, credit balances, deposits, deposit accounts and other property of Guarantor now or hereafter held or received by or in transit to Agent or its affiliates or at any other depository or other institution from or for the account of Guarantor whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including:
 - (i) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral;
 - (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party;
 - (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including returned, repossessed and reclaimed goods; and
 - (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;
 - (d) Inventory;
 - (e) Equipment;
 - (f) Records; and
 - (g) all products and proceeds of the foregoing, in any form, including insurance proceeds and any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

2.2 Notwithstanding the foregoing, Collateral shall not include:

- (a) the last day of the term of any lease (but upon the enforcement of Agent's rights hereunder, Agent shall stand possessed of such last day in trust to assign the same to any person acquiring such term); or
- (b) any Consumer Goods.

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SECTION 3
COLLATERAL COVENANTS

3.1 Accounts Covenants

- (a) Agent shall have the right at any time or times, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.
- (b) Guarantor shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to Guarantor, all chattel paper and instruments which Guarantor now owns or may at any time acquire immediately upon Guarantor's receipt thereof, except as Agent may otherwise agree.
- (c) Agent may, at any time or times that an Event of Default exists or has occurred and is continuing:
 - (i) notify any or all account debtors that the Accounts have been assigned to Agent and that Agent has a security interest therein and Agent may direct any or all accounts debtors to make payment of Accounts directly to Agent;
 - (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations;
 - (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Agent shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto; and
 - (iv) take whatever other action Agent may deem necessary or desirable for the protection of its interests.

At any time that an Event of Default exists or has occurred and is continuing, at Agent's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Agent and are payable directly and only to Agent and Guarantor shall deliver to Agent such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Agent may require.

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3.2 Inventory Covenants. With respect to the Inventory:

- (a) Guarantor shall at all times maintain inventory records reasonably satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Guarantor's cost therefore;
- (b) Guarantor shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales of Inventory in the ordinary course of Guarantor's business and except to move Inventory directly from one location set forth or permitted herein to another such location;
- (c) Guarantor shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws;
- (d) Guarantor assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory;
- (e) Guarantor shall keep the Inventory in good and marketable condition; and
- (f) Guarantor shall not, without prior written notice to Agent, acquire or accept any Inventory on consignment or approval.

3.3 Equipment Covenants. With respect to the Equipment:

- (a) upon Agent's request, Guarantor shall, at its expense, at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Agent and by appraiser acceptable to Agent;
- (b) Guarantor shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted);
- (c) Guarantor shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws;
- (d) the Equipment is and shall be used in Guarantor's business and not for personal, family, household or farming use;
- (e) Guarantor shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of Guarantor or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of Borrower in the ordinary course of business;

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- (f) the Equipment is now and shall remain personal property and Guarantor shall not permit any of the Equipment to be or become a part of or affixed to real property; and
 - (g) Guarantor assumes all responsibility and liability arising from the use of the Equipment.

3.4 Power of Attorney. Guarantor hereby irrevocably designates and appoints Agent for itself and for the ratable benefit of Tranche B Agent and Lenders (and all persons designated by Agent) as Guarantor's true and lawful attorney-in-fact, and authorizes Agent, in Guarantor's or Agent's name, to:

- (a) at any time an Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing:
 - (i) demand payment on Accounts or other proceeds of Collateral;
 - (ii) enforce payment of Accounts by legal proceedings or otherwise;
 - (iii) exercise all of Guarantor's rights and remedies to collect any Account or other Collateral;
 - (iv) sell or assign any Account upon such terms, for such amount and at such time or times as the Agent deems advisable;
 - (v) settle, adjust, compromise, extend or renew an Account,
 - (vi) discharge and release any Account;
 - (vii) prepare, file and sign Guarantor's name on any proof of claim in bankruptcy or other similar document against an account debtor,
 - (viii) notify the post office authorities to change the address for delivery of Guarantor's mail to an address designated by Agent, and open and dispose of all mail addressed to Guarantor; and
 - (ix) do all acts and things which are necessary, in Agent's determination, to fulfill Guarantor's obligations under this Agreement and the other Financing Agreements; and
- (b) at any time to
 - (i) take control in any manner of any item of payment or proceeds thereof;
 - (ii) have access to any lockbox or postal box into which Guarantor's mail is deposited;

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- (iii) endorse Guarantor's name upon any items of payment or proceeds thereof and deposit the same in the Agent's account for application to the Obligations;
 - (iv) endorse Guarantor's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral;
 - (v) sign Guarantor's name on any verification of Accounts and notices thereof to account debtors; and
 - (vi) execute in Guarantor's name and file any PPSA or other financing statements or amendments thereto.

Guarantor hereby releases Agent and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

3.5 Right to Cure. Agent may, at its option:

- (a) cure any default by Guarantor under any agreement with a third party or pay or bond on appeal any judgment entered against Guarantor;
- (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral; and
- (c) pay any amount, incur any expense or perform any act which, in Agent's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent with respect thereto.

Agent may add any amounts so expended to the Obligations and charge Guarantor's account therefor, such amounts to be repayable by Guarantor on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Guarantor. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

3.6 Access to Premises. From time to time as requested by Agent, at the cost and expense of Guarantor;

- (a) Agent or its designee shall have complete access to all of Guarantor's premises during normal business hours and after notice to Guarantor, or at any time and without notice to Guarantor if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Guarantor's books and records, including the Records;

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- (b) Guarantor shall promptly furnish to Agent such copies of such books and records or extracts therefrom as Agent may request; and
 - (c) use during normal business hours such of Guarantor's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 4 REPRESENTATIONS AND WARRANTIES

Guarantor hereby represents and warrants to Agent, Tranche B Agent and Lenders the following (which shall survive the execution and delivery of this Agreement):

4.1 Corporate Existence, Power and Authority; Subsidiaries. Guarantor is a corporation duly incorporated, validly existing and duly organized under the laws of its jurisdiction of incorporation and is duly qualified as a foreign or extra-provincial corporation in all provinces, states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Guarantor's financial condition, results of operation or business or the rights of Agent in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within Guarantor's corporate powers, have been duly authorized and are not in contravention of law or the terms of Guarantor's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property is bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of Guarantor enforceable in accordance with their respective terms. Guarantor does not have any subsidiaries except as set forth on the Information Certificate.

4.2 Financial Statements; No Material Adverse Change. All financial statements relating to Guarantor which have been or may hereafter be delivered by Guarantor to Agent have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of Guarantor as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Guarantor to Agent prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Guarantor, since the date of the most recent audited financial statements furnished by Guarantor to Agent prior to the date of this Agreement.

4.3 Chief Executive Office; Collateral Locations. The chief executive office of Guarantor and Guarantor's Records concerning Accounts are located only at the address set forth below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of Guarantor to establish new locations in accordance with Section 5.2 below. The Information Certificate correctly identifies any locations which are not owned by Guarantor and sets forth the owners and/or operators thereof, and to the best of Guarantor's knowledge, the holders of any mortgages on such locations.

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4.4 Priority of Liens; Title to Properties. The security interests and liens granted to Agent under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the liens indicated on Schedule 4.4 hereto (except to the extent that Agent requires discharge thereof) and the other liens permitted under Section 5.8 hereof. Guarantor has good and marketable title to all of its properties and assets subject to no liens, mortgages, pledges, security interests, hypothecs, encumbrances or charges of any kind, except those granted to Agent and such others as are specifically listed on Schedule 4.4 hereto (except to the extent that Agent requires the discharge thereof) or permitted under Section 5.8 hereof.

4.5 Tax Returns. Guarantor has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Agent). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Guarantor has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books. Adequate provision have been made for the payment of all accrued and unpaid Federal, Provincial, municipal, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

4.6 Litigation. Except as set forth on the Information Certificate, there are no present investigations by any governmental agency pending, or to the best of Guarantor's knowledge threatened, against or affecting Guarantor, its assets or business and there are no actions, suits, proceedings or claims by any Person pending, or to the best of Guarantor's knowledge threatened, against Guarantor or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Guarantor would result in any material adverse change in the assets, business or prospects of Guarantor or which would impair the ability of Guarantor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Agent to enforce the Obligations or realize upon any Collateral.

4.7 Compliance with Other Agreements and Applicable Laws. Guarantor is not in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound and Guarantor is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, Provincial or local governmental authority.

4.8 Bank Accounts. All of the deposit accounts, investment accounts or other accounts in the name of or used by Guarantor maintained at any bank or other financial institution are set forth on Schedule 4.8 hereto, subject to the right of Guarantor to establish new accounts in accordance with Section 5.13 below.

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4.9 Accuracy and Completeness of Information. All information furnished by or on behalf of Guarantor in writing to Agent in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificate are true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on the business, assets or prospects of Guarantor, which has not been fully and accurately disclosed to Agent in writing.

4.10 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Agent on the date of each additional borrowing or other credit accommodation under the Loan Agreement and shall be conclusively presumed to have been relied on by Agent regardless of any investigation made or information possessed by Agent. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Guarantor shall now or hereafter give, or cause to be given, to Agent.

SECTION 5 AFFIRMATIVE AND NEGATIVE COVENANTS

5.1 Maintenance of Existence. Guarantor shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Guarantor shall give Agent thirty (30) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and Guarantor shall deliver to Agent a certified copy of the Articles of Amendment of Guarantor providing for the name change immediately following its filing.

5.2 New Collateral Locations. Guarantor may open any new location within Canada provided Guarantor: (a) gives Agent thirty (30) days prior written notice of the intended opening of any such new location; and (b) executes and delivers, or causes to be executed and delivered, to Agent such agreements, documents, and instruments as Agent may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including PPSA and other financing statements and such other evidence as Agent may require of the perfection of Agent's first priority security interests and liens where required by Agent.

5.3 Compliance with Laws, Regulations, Etc. Guarantor shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any Federal, Provincial or local governmental authority, including, without limitation, all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety.

5.4 Payment of Taxes and Claims. Guarantor shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or

CAN OBLIGORS GSA

assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books. Guarantor shall be liable for any tax or penalties imposed on Agent as a result of the financing arrangements provided for herein and Guarantor agrees to indemnify and hold Agent harmless with respect to the foregoing, and to repay to Agent on demand the amount thereof, and until paid by Guarantor such amount shall be added and deemed part of the Obligations, provided, that, nothing contained herein shall be construed to require Guarantor to pay any income or franchise taxes attributable to the income of Agent from any amounts charged or paid hereunder to Agent. The foregoing indemnity shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Loan Agreement.

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

5.6 Financial Statements and Other Information.

- (a) Guarantor shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Guarantor and its subsidiaries (if any) in accordance with GAAP and Guarantor shall furnish or cause to be furnished to Agent: (i) within twenty (20) days after the end of each fiscal month or within thirty (30) days after the end of a fiscal month that is the month end of a fiscal quarter of SMTC Corporation, monthly unaudited consolidated financial statements and, if Guarantor has any subsidiaries, unaudited consolidating financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of Guarantor and its

CAN OBLIGORS GSA

subsidiaries as of the end of and through such fiscal month; and (ii) within ninety (90) days after the end of each fiscal year, audited consolidated financial statements and, if Guarantor has any Subsidiaries, consolidating financial statements of Guarantor and its subsidiaries (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of Guarantor and its subsidiaries as of the end of and for such fiscal year, together with the unqualified opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by Guarantor and reasonably acceptable to Agent, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of Guarantor and its subsidiaries as of the end of and for the fiscal year then ended.

- (b) Guarantor shall promptly notify Agent in writing of the details of: (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in Guarantor's business, properties, assets, goodwill or condition, financial or otherwise; and (ii) the occurrence of any Event of Default or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.
- (c) Guarantor shall promptly after the sending or filing thereof furnish or cause to be furnished to Agent copies of all reports which Guarantor sends to its shareholders generally and copies of all reports and registration statements which Guarantor files with any provincial securities commission or securities exchange.
- (d) Guarantor shall furnish or cause to be furnished to Agent such budgets, forecasts, projections and other information respecting the Collateral and the business of Guarantor, as Agent may, from time to time, reasonably request. Agent is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Guarantor to: (i) any court or other government agency as required or requested by such court or other government agency or if Agent reasonably believes it is compelled to do so by court decree, subpoena or legal administrative order or process; or (ii) to any participant or assignee or prospective participant or assignee provided such prospective participant or assignee agrees to maintain such information confidential and not disclose it to any other Person pursuant to the terms of a confidentiality agreement satisfactory to Agent and entered into between Agent and such prospective participant or assignee. Guarantor hereby irrevocably authorizes and directs all accountants or auditors to deliver to Agent, at Guarantor's expense, copies of the financial statements of Guarantor and any reports or management letters prepared by such accountants or auditors on behalf of Guarantor and to disclose to Agent such information as they may have regarding the business of Guarantor. Any documents, schedules, invoices or other papers delivered to Agent may be destroyed or otherwise disposed of by Agent one (1) year after the same are delivered to Agent, except as otherwise designated by Guarantor to Agent in writing.

CAN OBLIGORS GSA

5.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Guarantor shall not, directly or indirectly: (a) amalgamate with any other Person or permit any other Person to amalgamate with it; or (b) sell, assign, lease, transfer, abandon or otherwise dispose of any shares or indebtedness to any other Person or any of its assets to any other Person (except for: (i) sales of Inventory in the ordinary course of business; and (ii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of Guarantor so long as: (A) if an Event of Default exists or has occurred and is continuing, any proceeds are paid to Agent; and (B) such sales do not involve Equipment having an aggregate fair market value in excess of US\$25,000 for all such Equipment disposed of in any fiscal year of Guarantor); or (c) form or acquire any subsidiaries; or (d) wind up, liquidate or dissolve; or (e) agree to do any of the foregoing.

5.8 Encumbrances. Guarantor shall not create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Agent; (b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Guarantor's business to the extent: (i) such liens secure indebtedness which is not overdue; or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Guarantor as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) purchase money security interests in Equipment (including capital leases) and purchase money mortgages on real estate not to exceed US\$50,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Guarantor other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; and (f) the security interests and liens set forth on Schedule 4.4 hereto.

5.9 Indebtedness. Guarantor shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except: (a) the Obligations; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which the Guarantor is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Guarantor, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement; and (d) the indebtedness set forth on Schedule 5.9 hereto; provided, that: (i) Guarantor may only make regularly scheduled

CAN OBLIGORS GSA

payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof; (ii) Guarantor shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Guarantor shall furnish to Agent all notices or demands in connection with such indebtedness either received by Guarantor or on its behalf, promptly after the receipt thereof, or sent by Guarantor or on its behalf, concurrently with the sending thereof, as the case may be.

5.10 Loans, Investments, Guarantee, Etc. Guarantor shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in: (i) short-term direct obligations of the Canadian Government; (ii) negotiable certificates of deposit issued by any bank satisfactory to Agent, payable to the order of the Guarantor or to bearer and delivered to Agent; and (iii) commercial paper rated A1 or P1; provided, that, as to any of the foregoing, unless waived in writing by Agent, Guarantor shall take such actions as are deemed necessary by Agent to perfect the security interest of Agent in such investments; and (c) the loans, advances and guarantees set forth on Schedule 5.10 hereto; provided, that, as to such loans, advances and guarantees; (i) Guarantor shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument relating thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose; and (ii) Guarantor shall furnish to Agent all notices or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by Guarantor or on its behalf, promptly after the receipt thereof, or sent by Guarantor or on its behalf, concurrently with the sending thereof, as the case may be.

5.11 Dividends and Redemptions. Guarantor shall not, directly or indirectly, declare or pay any dividends on account of any shares of class of capital stock of Guarantor now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing.

5.12 Transactions with Affiliates. Guarantor shall not, directly or indirectly:

- (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with Guarantor, except in the ordinary course of and pursuant to the reasonable requirements of Guarantor's business and upon fair and reasonable terms no less favorable to Guarantor than Guarantor would obtain in a comparable arm's length transaction with an unaffiliated person; or

CAN OBLIGORS GSA

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- (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with Guarantor except reasonable compensation to officers, employees and directors for services rendered to Guarantor in the ordinary course of business.

5.13 Additional Bank Accounts. Guarantor shall not, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the accounts set forth in Schedule 4.8 hereto, except: (a) as to any new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Agent and subject to such conditions thereto as Agent may establish; and (b) as to any accounts used by Guarantor to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Agent.

5.14 Intentionally Deleted.

5.15 Costs and Expenses. Guarantor shall pay to Agent on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Agent's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including:

- (a) all costs and expenses of filing or recording (including PPSA financing statement and other similar filing and recording fees and taxes, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable);
- (b) insurance premiums, appraisal fees and search fees;
- (c) costs and expenses of preserving and protecting the Collateral;
- (d) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Agent, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Agent arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); and
- (e) the fees and disbursements of counsel (including legal assistants) to Agent in connection with any of the foregoing.

5.16 Further Assurances. At the request of Agent at any time and from time to time, Guarantor shall, at its expense, duly execute and deliver, or cause to be duly executed and

CAN OBLIGORS GSA

delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Where permitted by law, Guarantor hereby authorizes Agent to execute and file one or more PPSA financing statements or notices signed only by Agent or Agent's representative.

SECTION 6
EVENTS OF DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence or existence of any Event of Default under the Loan Agreement is referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”.

6.2 Remedies.

- (a) At any time an Event of Default exists or has occurred and is continuing, Agent shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the PPSA and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Guarantor or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Agent hereunder, under any of the other Financing Agreements, the PPSA or other applicable law, are cumulative, not exclusive and enforceable, in Agent's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Guarantor of this Agreement or any of the other Financing Agreements. Agent may, at any time or times, proceed directly against Guarantor or any Obligor to collect the Obligations without prior recourse to the Collateral or any collateral at any time granted by Guarantor to Agent.
- (b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Agent may for itself and the ratable benefit of Tranche B Agent and Lenders subject to the terms of the Loan Agreement, in its discretion and without limitation:
 - (i) accelerate the payment of all Obligations and demand immediate payment thereof to Agent (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h) of the Loan Agreement, all Obligations shall automatically become immediately due and payable);
 - (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral;

CAN OBLIGORS GSA

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- (iii) require Guarantor, at Guarantor's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent;
 - (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral;
 - (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose; and/or
 - (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Agent or elsewhere) at such prices or terms as Agent may deem reasonable, for cash, upon credit or for future delivery, with the Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Guarantor, which right or equity of redemption is hereby expressly waived and released by Guarantor.

If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, five (5) days prior notice by Agent to Guarantor designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Guarantor waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Guarantor waives the posting of any bond which might otherwise be required.

- (c) Agent shall apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in accordance with the Loan Agreement. Guarantor shall remain liable to Agent for the payment of any deficiency with interest at the highest rate provided for in the Loan Agreement and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

SECTION 7

JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

7.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

- (a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the

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parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to principles of conflicts of law).

- (b) Guarantor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objections based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected or related or incidental to the dealings of Guarantor and Agent in respect of this Agreement or the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Guarantor or its property).
- (c) To the extent permitted by law, Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to the addresses set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Agent against Guarantor for the amount of the claim and other relief requested.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND AGENT IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Agent shall not have any liability to Guarantor (whether in tort, contract, equity or

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otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement and the other Financing Agreements.

- (f) Guarantor hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Agent from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Guarantor waives the posting of any bond otherwise required of Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, this Agreement or any other Financing Agreement.

7.2 Waiver of Notices. Guarantor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Guarantor which Agent may elect to give shall entitle Guarantor to any other or further notice or demand in the same, similar or other circumstances.

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

7.4 Waiver of Counterclaims. Guarantor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

7.5 Indemnification. Guarantor shall indemnify and hold Agent, and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages,

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liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Guarantor shall pay the maximum portion which it is permitted to pay under applicable law to Agent in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Loan Agreement.

SECTION 8 MISCELLANEOUS

8.1 Notices. All notices, requests and demands hereunder shall be in writing and:

- (a) made to Agent at 141 Adelaide Street West, Suite 1500, Toronto, Ontario M5H 3L9 and to Guarantor at the chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and
- (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

8.2 Judgment Currency. To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent, may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent, receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.

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

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8.4 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon Guarantor and its successors and assigns and inure to the benefit of and be enforceable by Agent and its successors and assigns, except that Guarantor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Agent.

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

8.6 No Novation. This Agreement does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of Borrower or any Obligor under the Original Financing Agreements from any of its obligations and liabilities as "Borrower" or "Obligor" thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to "the Original Loan Agreement," "thereto," "thereof," "thereunder" or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or any Obligors from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.

8.7 Attachment. The security interest created hereby is intended to attach when this Agreement is executed by Guarantor and delivered to Agent.

8.8 Headings. The division of this agreement into Sections and the insertion of headings are for convenience only and shall not affect the construction or interpretation of this Agreement.

8.9 Acknowledgement. Guarantor acknowledges receipt of a copy of this Agreement.

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8.10 Facsimile. This Agreement may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

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IN WITNESS WHEREOF, Guarantor has executed and delivered this Amended and Restated General Security Agreement as of the date first written above.

SMTC NOVA SCOTIA COMPANY

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Chief Executive Office
635 Hood Road
Markham, Ontario L3R 4N6
Fax: (905) 479-5326

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EXHIBIT A
INFORMATION CERTIFICATE

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SCHEDULE 4.4

LIENS

Nil.

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SCHEDULE 4.8
BANK ACCOUNTS

Nil.

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SCHEDULE 5.9
INDEBTEDNESS

Nil.

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SCHEDULE 5.10

LOANS, ADVANCES AND GUARANTEES

Nil.

AMENDED AND RESTATED GUARANTEE

August 10, 2007

Wachovia Capital Finance Corporation (Canada), as Agent
141 Adelaide Street West, Suite 1500
Toronto, Ontario M5H 3L9

Re: SMTC Manufacturing Corporation of Canada/Societe De Fabrication SMTC Du Canada (the "Borrower")

Ladies and Gentlemen:

WHEREAS Congress Financial Corporation (Canada) ("**Congress**") (predecessor to Wachovia Capital Finance Corporation (Canada) ("**Wachovia**")) has entered into certain financing arrangements with Borrower and affiliates of Borrower pursuant to which Congress made loans and provided other financial accommodations to Borrower and its affiliates set forth in the Loan Agreement dated as of June 1, 2004 (as amended pursuant to a first amending agreement dated March 31, 2005, a second amending agreement dated August 17, 2005, a third amending agreement dated June 12, 2006, an extension letter dated August 1, 2006 and a fourth amending agreement dated September 20, 2006, collectively, the "**Original Loan Agreement**") and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including a guarantee provided by the undersigned in favour of Congress dated as of June 1, 2004 (the "**Original Guarantee**") (all of the foregoing, including the Original Loan Agreement, being collectively referred to herein as the "**Original Financing Agreements**").

WHEREAS Borrower has requested that Wachovia for and on behalf of itself and as agent (in such capacity, together with any successors and assigns, the "**Agent**") for Monroe Capital Management Advisors LLC, a Delaware limited liability company (in such capacity and together with any successors and assigns, if any, the "**Tranche B Agent**") and the lenders that from time to time are party to the Loan Agreement (as defined below) (collectively, the "**Lenders**") amend and restate the Original Loan Agreement pursuant to an amended and restated loan agreement dated as of the date hereof (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the "**Loan Agreement**") and Borrower, Agent, Tranche B Agent and Lenders have also agreed to amend and restate the other Original Financing Agreements, including the Original Guarantee (all of the foregoing, including the Loan Agreement, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively the "**Financing Agreements**").

WHEREAS due to the close business and financial relationships between Borrower and the undersigned (the "**Guarantor**"), in consideration of the benefits which will accrue to Guarantor and as an inducement for and in consideration of Agent, Tranche B Agent and Lenders making loans and advances and providing other financial accommodations to Borrower and its affiliates pursuant to the Loan Agreement and other Financing Agreements, the Guarantor hereby agrees to amend and restate the Original Guarantee and provide this Amended and Restated Guarantee (the "**Guarantee**") as follows:

1. Guarantee

- (a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the “**Guaranteed Obligations**”):
- (i) all obligations, liabilities and indebtedness of any kind, nature and description of Borrower to Agent, Tranche B Agent and Lenders and/or their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement and other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to Borrower under the *Bankruptcy and Insolvency Act (Canada)* (“**BIA**”), *Companies’ Creditors Arrangement Act (Canada)* (“**CCAA**”) or any similar statute in any jurisdiction (“**Insolvency Legislation**”) (including, without limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of Borrower or its successors to Agent, Tranche B Agent and Lenders arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent, Tranche B Agent and Lenders and/or their affiliates; and
 - (ii) all expenses (including, without limitation, attorneys’ fees and legal expenses) incurred by Agent, Tranche B Agent and Lenders in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defence of Borrower’s and its affiliates’ obligations, liabilities and indebtedness as aforesaid to Agent, Tranche B Agent and Lenders, the rights of Agent, Tranche B Agent and Lenders in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Agent directly or indirectly arising out of or related to the relationships between Borrower and/or its affiliates, Guarantor or any other Obligor (as hereinafter defined) and Agent, Tranche B Agent and Lenders, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement or other Financing Agreements or after the commencement of any case with respect to Borrower or Guarantor under any Insolvency Legislation.

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- (b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that Agent for itself, and for the ratable benefit of Tranche B Agent and Lenders need not attempt to collect any Guaranteed Obligations from Borrower and/or its affiliates, or any other Obligor (as defined below) or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations to Agent for itself, and for the ratable benefit of Tranche B Agent and Lenders when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Agent shall apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Agent, Tranche B Agent and Lenders with respect thereto or otherwise chargeable to the Borrower and/or its affiliates or Guarantor) and in accordance with the Loan Agreement.
- (c) Payment by Guarantor shall be made to Agent for itself, and for the ratable benefit of Tranche B Agent and Lenders at the office of Agent from time to time, on demand, as Guaranteed Obligations become due. Guarantor shall make all payments to Agent for itself, and for the ratable benefit of Tranche B Agent and Lenders on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which Borrower and/or its affiliates or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Agent to Guarantor.

2. Waivers and Consents

- (a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrower and its affiliates and presentment, demand, protest, notice of protest, notice of non-payment or default and all other notices to which Borrower and/or its affiliates or Guarantor is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to:
- (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased;
- (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Agent for the obligations of

Borrower and/or its affiliates or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an “**Obligor**” and collectively, the “**Obligors**”);

- (iii) the exercise of, or refraining from the exercise of any rights against Borrower and/or its affiliates, Guarantor or any other Obligor or any collateral; and
 - (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations. Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.
- (b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defence to this Guarantee, nor shall any other circumstance which might otherwise constitute a defence available to or legal or equitable discharge of Borrower and/or its affiliates in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defence to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by Agent to perfect or continue perfection of any lien or security interest in any collateral or any delay by Agent in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to Borrower and/or its affiliates under any Insolvency Legislation, Guarantor shall be liable therefor, even if Borrower’s or its affiliates’ liability for such amounts does not, or ceases to, exist by operation of law. Guarantor acknowledges that Agent has not made any representations to Guarantor with respect to Borrower and/or its affiliates or any other Obligor or otherwise in connection with the execution and delivery by Guarantor of this Guarantee and Guarantor is not in any respect relying upon Agent or any statements by Agent in connection with this Guarantee.
- (c) Guarantor hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrower and its affiliates or any other Obligors, any collateral for the Guaranteed Obligations or other assets of Borrower and/or its affiliates or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, set-off or other recourse in respect to sums paid or payable to Agent, for itself and for the ratable benefit of Tranche B Agent or the Lenders by Guarantor hereunder and Guarantor hereby further irrevocably and unconditionally waives and relinquishes any and all other benefits which it might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from it, Borrower, its affiliates or any other Obligor upon the Guaranteed Obligations or realized from their property.

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3. Subordination. Payment of all amounts now or hereafter owed to Guarantor by Borrower, its affiliates or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Agent, for itself, and for the ratable benefit of Tranche B Agent or Lenders of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Agent as security for the Guaranteed Obligations.
 4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantor for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of Borrower and/or its affiliates or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default (as such term is defined in the Loan Agreement).
 5. Account Stated. The books and records of Agent showing the account between Agent and Borrower shall be admissible in evidence in any action or proceeding against or involving Guarantor as prima facie proof of the items therein set forth, and the monthly statements of Agent rendered to Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to Borrower, shall be deemed conclusively correct and constitute an account stated between Agent and Borrower and be binding on Guarantor.
 6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Guarantor shall continue to be liable hereunder until one of Agent's officers actually receives a written termination notice from Guarantor sent to Agent at its address set forth above by certified mail (return receipt requested) and thereafter as set forth below. Revocation or termination hereof by Guarantor shall not affect, in any manner, the rights of Agent or any obligations or duties of Guarantor under this Guarantee with respect to:
 - (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Agent of such written notice of revocation or termination as provided herein, including, without limitation:
 - (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination);
 - (ii) all interest, fees and similar charges accruing or due on and after revocation or termination; and
 - (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against Borrower and/or its affiliates, Guarantor or any other Obligor (whether or not suit be brought); or

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- (b) Guaranteed Obligations which have been created, contracted, assumed or incurred after the receipt by Agent of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Agent prior to receipt of such notice. The sole effect of such revocation or termination by Guarantor shall be to exclude from this Guarantee the liability of Guarantor for those Guaranteed Obligations arising after the date of receipt by Agent of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).
7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Agent, Tranche B Agent or Lenders is/are required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Agent, Tranche B Agent or Lenders. Guarantor shall be liable to pay to Agent, and does indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.
8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.
9. Corporate Existence, Power and Authority. Guarantor is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on its financial condition, results of operation or businesses or the rights of Agent hereunder or under the Loan Agreement and other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of Guarantor, have been duly authorized

and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of Guarantor, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of Guarantor enforceable in accordance with its terms. Guarantor signing this guarantee shall be bound hereby whether or not any other person signs this Guarantee at any time.

10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver

- (a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between Guarantor and Agent, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the Province of Ontario and the federal laws of Canada applicable therein (without giving effect to principles of conflicts of law).
- (b) Guarantor hereby irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of Guarantor and Agent in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Guarantor, Borrower and/or its affiliates, any Obligor and Agent or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on any collateral at any time granted by Borrower and/or its affiliates or Guarantor to Agent or to otherwise enforce its rights against Guarantor or its property).
- (c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Agent against Guarantor for the amount of the claim and other relief requested.
- (d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING

AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND AGENT IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR AGENT MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND AGENT TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

- (e) Neither Agent, Tranche B Agent nor Lenders shall have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct. In any such litigation, Agent shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Financing Agreements.
11. **Judgment Currency.** To the extent permitted by applicable law, the obligations of Guarantor in respect of any amount due under this Agreement and other Financing Agreements to which Guarantor is a party shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Agent receives the payment, such payment being for itself, and for the ratable benefit of Tranche B Agent and Lenders and payable in accordance with the Loan Agreement. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Guarantor shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Guarantor not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Section, continue in full force and effect.
12. **Notices.** All notices, requests and demands hereunder shall be in writing and:
- (a) made to Agent at its address set forth above and to Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and

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- (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail (return receipt requested) five (5) days after mailing.
13. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.
14. Entire Agreement. This Guarantee represents the entire agreement and understanding of this parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.
15. Successors and Assigns. This Guarantee shall be binding upon Guarantor and its successors and assigns and shall inure to the benefit of Agent and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of Guarantor shall not terminate this Guarantee.
16. Construction. All references to the term “**Guarantor**” wherever used herein shall mean Guarantor and its successors and assigns (including, without limitation, any receiver, trustee or custodian for Guarantor or any of its assets or Guarantor in its capacity as debtor or debtor-in-possession under any Insolvency Legislation. All references to the term “**Agent**”, “**Tranche B Agent**” or “**Lenders**” wherever used herein shall mean Agent, Tranche B Agent, Lenders and their respective successors and assigns and all references to the term “**Borrower**” or its “**affiliates**” wherever used herein shall mean each and all of Borrower and its affiliates and their respective successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrower and its affiliates or any of their respective assets or Borrower, or its affiliates in their capacities as debtor or debtor-in-possession under any Insolvency Legislation). All references to the term “**Person**” or “**person**” wherever used herein shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.
17. No Novation. This Guarantee does not discharge or release the obligations under the Original Loan Agreement and the other Original Financing Agreements or the Lien (as such term is defined in the Loan Agreement) or priority of any mortgage, pledge, security agreement or any other security therefor. Nothing herein contained shall be construed as

a substitution or novation of the obligations outstanding under the Original Loan Agreement and the other Original Financing Agreements or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Guarantee shall be construed as a release or other discharge of Borrower or any Guarantor under the Original Financing Agreements from any of its obligations and liabilities as "Borrower" or "Guarantor" thereunder. The undersigned hereby (i) confirms and agrees that each Original Financing Agreement to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the date hereof all references in any such Original Financing Agreement to "the Original Loan Agreement," "thereto," "thereof," "thereunder" or words of like import referring to the Original Financing Agreements shall mean the Original Financing Agreement as amended and restated by the respective Financing Agreement and (ii) confirms and agrees that to the extent that any such Financing Agreement purports to assign or pledge to the Agent a security interest in or Lien (as such term is defined in the Loan Agreement) on, any collateral as security for the obligations of the Borrower or the Guarantor from time to time existing in respect of the Original Financing Agreements, such pledge, assignment and/or grant of the security interest or Lien (as such term is defined in the Loan Agreement) is hereby ratified and confirmed in all respects.

18. Acknowledgement. Guarantor acknowledges receipt of a copy of this Guarantee.
19. Facsimile. This Guarantee may be executed and delivered by facsimile transmission and Agent may rely on all such facsimile signatures as though such facsimile signatures were original signatures.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, Guarantor has executed and delivered this Guarantee as of the day and year first above written.

ATTEST:

SMTC NOVA SCOTIA COMPANY

By: _____
Title: _____

By: _____
Title: _____

[CORPORATE SEAL]

Chief Executive Office:

635 Hood Road
Markham, Ontario L3R 4N6
Fax: (905) 479-5326

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, John Caldwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2007

/s/ John Caldwell

John Caldwell

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, Jane Todd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2007

/s/ Jane Todd

Jane Todd

Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief executive officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2007 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Caldwell

John Caldwell

President and Chief Executive Officer

Date: November 14, 2007

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal financial officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2007 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jane Todd

Jane Todd
Chief Financial Officer

Date: November 14, 2007

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.