

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

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**FORM 10-Q**

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

For the quarterly period ended June 29, 2008

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

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**SMTC CORPORATION**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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**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)

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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, a non-accelerated filer or a smaller reporting company. See: definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller reporting company

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 August 1, 2008, SMTC Corporation had 13,883,099 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 August 1, 2008, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 7,948,310 exchangeable shares outstanding, including 7,185,077 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.

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[Table of Contents](#)

SMTC CORPORATION

Table of Contents

<a href="#">PART I FINANCIAL INFORMATION</a>	3
<i>Item 1</i> <a href="#">Financial Statements</a>	3
<a href="#">Consolidated Balance Sheets</a>	3
<a href="#">Consolidated Statements of Operations</a>	4
<a href="#">Consolidated Statements of Changes in Shareholders' Equity</a>	5
<a href="#">Consolidated Statements of Cash Flows</a>	6
<a href="#">Notes to Consolidated Financial Statements</a>	7
<i>Item 2</i> <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	18
<i>Item 3</i> <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	25
<i>Item 4T</i> <a href="#">Controls and Procedures</a>	25
<a href="#">PART II OTHER INFORMATION</a>	26
<i>Item 1A</i> <a href="#">Risk factors</a>	26
<i>Item 5</i> <a href="#">Other Information</a>	27
<i>Item 6</i> <a href="#">Exhibits</a>	28

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[Table of Contents](#)

**Part I FINANCIAL INFORMATION**

**Item 1 Financial Statements**

**Consolidated Balance Sheets as of:**

(Expressed in thousands of U.S. dollars)

(Unaudited)

		<u>June 29, 2008</u>	<u>December 31, 2007</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash		\$ —	\$ 182
Accounts receivable – net	Note 3	39,803	38,658
Inventories	Note 3	38,019	30,879
Prepaid expenses		1,403	940
		<u>79,225</u>	<u>70,659</u>
Property, plant and equipment – net	Note 3	17,047	22,295
Deferred financing fees	Note 3	1,206	1,410
Deferred income taxes	Note 7	512	483
		<u>\$ 97,990</u>	<u>\$ 94,847</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable		\$ 40,826	\$ 37,172
Accrued liabilities	Note 3	8,395	7,272
Income taxes payable		582	604
Current portion of long-term debt	Note 4	2,600	3,071
Current portion of capital lease obligations		975	736
		<u>53,378</u>	<u>48,855</u>
Long-term debt	Note 4	21,893	17,913
Capital lease obligations		1,573	1,244
Commitments and contingencies	Note 10		
Subsequent event	Note 4		
<b>Shareholders' equity:</b>	Note 5		
Capital stock		7,587	7,854
Warrants		10,372	10,372
Loans receivable		(5)	(5)
Additional paid-in capital		249,367	248,888
Deficit		<u>(246,175)</u>	<u>(240,274)</u>
		<u>21,146</u>	<u>26,835</u>
		<u>\$ 97,990</u>	<u>\$ 94,847</u>

See accompanying notes to consolidated financial statements.

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[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		Six months ended		
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007	
Revenue	\$ 66,286	\$ 66,110	\$ 121,426	\$ 135,587	
Cost of sales	61,832	60,265	112,571	123,265	
Gross profit	4,454	5,845	8,855	12,322	
Selling, general and administrative expenses	4,238	4,118	7,427	7,690	
Restructuring charges	Note 6	5,748	—	5,523	
Operating (loss) earnings	(5,532)	1,727	(4,095)	4,632	
Interest expense	Note 3	765	1,582	3,264	
(Loss) earnings before income taxes	(6,297)	145	(5,773)	1,368	
Income tax expense (recovery)	Note 7				
Current	45	35	157	(1,445)	
Deferred	(20)	—	(29)	(98)	
	25	35	128	(1,543)	
Net (loss) earnings, also being comprehensive (loss) income	\$ (6,322)	\$ 110	\$ (5,901)	\$ 2,911	
Basic (loss) earnings per share	\$ (0.43)	\$ 0.01	\$ (0.40)	\$ 0.20	
Diluted (loss) earnings per share	\$ (0.43)	\$ 0.01	\$ (0.40)	\$ 0.20	
Weighted average number of shares outstanding					
Basic	14,646,333	14,646,333	14,646,333	14,646,333	
Diluted	Note 8	14,646,333	14,994,949	14,646,333	14,923,935

See accompanying notes to consolidated financial statements.

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[Table of Contents](#)

**Consolidated Statements of Changes in Shareholders' Equity**

(Expressed in thousands of U.S. dollars)

Six months ended June 29, 2008 and July 1, 2007

(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, 2007	\$ 7,854	\$10,372	\$ (5)	\$ 248,888	\$(240,274)	\$ 26,835
Stock-based compensation	—	—	—	212	—	212
Conversion of shares from exchangeable to common stock	(267)	—	—	267	—	—
Net loss	—	—	—	—	(5,901)	(5,901)
Balance, June 29, 2008	<u>\$ 7,587</u>	<u>\$10,372</u>	<u>\$ (5)</u>	<u>\$ 249,367</u>	<u>\$(246,175)</u>	<u>\$ 21,146</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, 2006	\$ 11,969	\$10,372	\$ (5)	\$ 244,501	\$(242,946)	\$ 23,891
Stock-based compensation	—	—	—	131	—	131
Conversion of shares from exchangeable to common stock	(2,979)	—	—	2,979	—	—
Net earnings	—	—	—	—	2,911	2,911
Balance, July 1, 2007	<u>\$ 8,990</u>	<u>\$10,372</u>	<u>\$ (5)</u>	<u>\$ 247,611</u>	<u>\$(240,035)</u>	<u>\$ 26,933</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		Six months ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Cash provided by (used in):				
<b>Operations:</b>				
Net (loss) earnings	\$(6,322)	\$ 110	\$(5,901)	\$ 2,911
Items not involving cash:				
Depreciation	740	1,222	1,864	2,531
Impairment of property, plant and equipment	4,921	—	4,921	—
Deferred income taxes	(20)	(15)	(29)	(103)
Non-cash interest	100	812	204	1,096
Stock-based compensation	288	1,001	496	1,138
Change in non-cash operating working capital:				
Accounts receivable	(5,601)	5,393	(1,145)	5,637
Inventories	876	8,251	(7,140)	6,309
Prepaid expenses	(288)	(326)	(463)	(313)
Income taxes payable	(8)	32	(22)	(1,625)
Accounts payable	456	(5,097)	3,654	(2,312)
Accrued liabilities	293	(2,726)	726	(2,643)
	(4,565)	8,657	(2,835)	12,626
<b>Financing:</b>				
Net borrowings (repayment) of long-term debt	4,529	(6,103)	3,509	(9,633)
Principal payment of capital lease obligations	(233)	(192)	(409)	(322)
	4,296	(6,295)	3,100	(9,955)
<b>Investing:</b>				
Purchase of property, plant and equipment	(472)	(1,162)	(715)	(1,471)
Proceeds from sale of property, plant and equipment	268	—	268	—
	(204)	(1,162)	(447)	(1,471)
(Decrease) increase in cash and cash equivalents	(473)	1,200	(182)	1,200
Cash and cash equivalents, beginning of period	473	—	182	—
Cash and cash equivalents, end of the period	<u>\$ —</u>	<u>\$ 1,200</u>	<u>\$ —</u>	<u>\$ 1,200</u>

See accompanying notes to consolidated financial statements.

**Notes to Consolidated Financial Statements**

**1. Nature of the business**

SMTC Corporation (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, Mexico and China. For the past seven years the Company has had an evolving manufacturing relationship with Alco Electronics Ltd. (Alco), a Hong Kong-headquartered, publicly-traded company with large scale manufacturing operations in China. Currently, the Company is operating under an existing manufacturing arrangement with Alco. Having established a new manufacturing facility in China, we expect to operate under a joint venture agreement some time later this year. This new facility provides a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities through a new international sourcing and procurement office.

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, 2007. 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, 2007.

**2. Accounting changes, recent accounting pronouncements, and change in accounting estimate**

***Accounting changes:***

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS 157, Fair Value Measurements (“SFAS 157”). SFAS 157 establishes a framework for measuring fair value of assets and liabilities, and expands disclosures about fair value measurements. SFAS 157 was adopted effective January 1, 2008 and did not have a material impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115 (“SFAS 159”). SFAS 159 permits an entity to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 was adopted effective January 1, 2008 and did not have a material impact on the Company’s consolidated financial statements as the Company did not choose to measure any applicable financial assets or financial liabilities at fair value.

***Recent accounting pronouncements:***

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States (the GAAP hierarchy). The FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing SFAS 162 to achieve that result. SFAS 162 is effective sixty days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The adoption of this standard is not anticipated to have a material effect on the Company’s consolidated financial statements.

In June 2008, the FASB ratified EITF No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock (“EITF 07-5”). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument’s contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is assessing the potential impact of EITF 07-5 on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (“FSP”) EITF Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“EITF 03-6-1”). EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. EITF 03-6-1 affects entities that accrue dividends on share-based payment awards during the awards’ service period when the dividends do not need to be returned if the employees forfeit the award. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 03-6-1 on its consolidated financial statements.

## Table of Contents

### *Change in accounting estimate:*

In the course of acquiring machinery and equipment for the fabrication business at the beginning of the second quarter of 2008, the Company conducted a review of the estimated useful life of machinery and equipment used in that business. Based on those findings, the estimated useful life of that class of assets was increased from 7 years to 15 years. This change in estimate was applied to all existing and new assets of this class on a prospective basis from March 31, 2008.

### **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 six 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>Six months ended</u>	
	<u>June 29, 2008</u>	<u>July 1, 2007</u>	<u>June 29, 2008</u>	<u>July 1, 2007</u>
Long-term debt	\$ 715	\$ 1,541	\$1,579	\$3,164
Obligations under capital leases	50	41	99	100
Interest expense	<u>\$ 765</u>	<u>\$ 1,582</u>	<u>\$1,678</u>	<u>\$3,264</u>

#### Consolidated statements of cash flows

##### *Supplemental disclosures:*

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 29, 2008</u>	<u>July 1, 2007</u>	<u>June 29, 2008</u>	<u>July 1, 2007</u>
Cash interest paid	\$ 648	\$ 573	\$1,382	\$1,792
Cash taxes paid – net	\$ 33	\$ 23	\$ 131	\$ 200
Property, plant and equipment acquired through capital lease	\$ 268	\$ —	\$ 977	\$ —

#### Consolidated balance sheets

##### *Accounts receivable – net:*

	<u>June 29, 2008</u>	<u>December 31, 2007</u>
Accounts receivable	\$40,244	\$ 39,371
Allowance for doubtful accounts	(441)	(713)
Accounts receivable – net	<u>\$39,803</u>	<u>\$ 38,658</u>

## Table of Contents

### *Inventories:*

	<u>June 29, 2008</u>	<u>December 31, 2007</u>
Raw materials	\$23,034	\$ 22,576
Work in process	8,785	5,459
Finished goods	5,491	2,151
Other	709	693
<b>Inventories</b>	<b><u>\$38,019</u></b>	<b><u>\$ 30,879</u></b>

### *Property, plant and equipment – net:*

	<u>June 29, 2008</u>	<u>December 31, 2007</u>
<b>Cost:</b>		
Land	\$ 1,648	\$ 1,648
Buildings	9,721	9,677
Machinery and equipment <sup>(a)</sup>	31,370	30,377
Office furniture and equipment	4,388	4,376
Computer hardware and software	9,203	9,015
Leasehold improvements	8,998	13,675
	<u>65,328</u>	<u>68,768</u>
<b>Less accumulated depreciation:</b>		
Land	—	—
Buildings	(4,027)	(3,775)
Machinery and equipment <sup>(a)</sup>	(22,730)	(21,531)
Office furniture and equipment	(4,276)	(4,238)
Computer hardware and software <sup>(b)</sup>	(8,514)	(8,407)
Leasehold improvements	(8,734)	(8,522)
	<u>(48,281)</u>	<u>(46,473)</u>
<b>Property, plant and equipment – net</b>	<b><u>\$ 17,047</u></b>	<b><u>\$ 22,295</u></b>

(a) Included within machinery and equipment were assets under capital leases with costs of \$7,084 and \$6,375, and associated accumulated depreciation of \$2,530 and \$2,056, as of June 29, 2008 and December 31, 2007, respectively. The related depreciation expense for the three months ended June 29, 2008 and July 1, 2007 was \$235 and \$208, respectively. Related depreciation expense for the six months ended June 29, 2008 and July 1, 2007 was \$474 and \$415, respectively.

(b) Included within computer hardware and software were assets under capital leases with costs of \$268 and \$0, and associated accumulated depreciation of \$7 and \$0, as of June 29, 2008 and December 31, 2007, respectively. The related depreciation expense for both the three and six months ended June 29, 2008 was \$7. There was no depreciation expense for computer hardware and software under capital lease for the three and six months ended July 1, 2007.

### *Deferred financing fees:*

	<u>June 29, 2008</u>	<u>December 31, 2007</u>
Deferred financing fees	\$ 3,403	\$ 3,403
Less: accumulated amortization	(2,197)	(1,993)
<b>Deferred financing fees – net</b>	<b><u>\$ 1,206</u></b>	<b><u>\$ 1,410</u></b>

## Table of Contents

### *Accrued liabilities:*

	June 29, 2008	December 31, 2007
Customer related	\$1,688	\$ 1,077
Interest and financing related	407	345
Payroll	2,663	2,605
Professional services	801	1,260
Restructuring	309	70
Vendor related	932	277
Miscellaneous taxes	212	210
Other	1,383	1,428
Accrued liabilities	<u>\$8,395</u>	<u>\$ 7,272</u>

### 4. Long term debt

	June 29, 2008	December 31, 2007
Senior debt:		
Revolving	\$ 5,296	\$ 252
Term	19,197	20,732
	<u>24,493</u>	<u>20,984</u>
Less: Current portion of long-term debt	<u>(2,600)</u>	<u>(3,071)</u>
Long-term debt	<u>\$21,893</u>	<u>\$ 17,913</u>

On August 3, 2007, the Company and its subsidiaries entered into new five year agreements, expiring August 4, 2012 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 provided for a \$40,000 revolving credit facility and a \$21,500 term loan. The proceeds of the loans were used to repay existing debt and provided for working capital needs. The availability under the revolving credit facilities was subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company. The revolving credit facilities bore interest at the U.S. Prime rate. The term loan bore interest at LIBOR plus 4% with the rate declining at predetermined levels based on the Company's overall leverage. The Wachovia Monroe Facilities replaced 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.

The Wachovia Monroe Facilities were jointly and severally guaranteed by the Company and secured by the assets and capital stock of each of the Company's subsidiaries and its future subsidiaries.

The Company incurred costs of \$1,409 related to the completion of the Wachovia Monroe Facilities in 2007. These costs were recorded as a non-current deferred charge and are being amortized as additional interest expense over the term of the credit facility.

During the quarter, the Company was informed that Monroe had assigned all of its rights, title and interest in the term debt to a fund held by Garrison Investment Group LLC ("Garrison").

Subsequent to the end of the quarter, the Company entered into a second amended and restated loan agreement in the US and Canada with Wachovia and Export Development Canada ("EDC") dated August 7, 2008 (the "Wachovia EDC Facilities"). Under the amendment, Wachovia amended certain borrowing base conditions based on eligible inventory and accounts receivable of the Company to allow increased borrowing capacity and increased the revolving credit facility from \$40,000 to \$45,000. Also under this amendment, EDC replaces Garrison as the term debt lender. The proceeds from the EDC term debt of \$13,000, together with the increased borrowing capacity, were used to repay the entire remaining Garrison loan. The interest on the LIBOR based term debt assigned to EDC has been reduced from LIBOR plus 4% to LIBOR plus 3.5%, decreasing at various leverage rates. Financial covenants were changed and restrictions on certain investments and expenditures have been removed.

At June 29, 2008 and December 31, 2007, there were Canadian dollar denominated cash balances of \$850 and \$1,362 respectively, which were classified as an offset to debt balances as they were required to be used to reduce the outstanding revolving credit facilities.

## Table of Contents

The Wachovia EDC Facilities are jointly and severally guaranteed by the Company and secured by the assets and capital stock of each of the Company's subsidiaries and its future subsidiaries.

The term loan is repayable in quarterly installments of \$650 to \$975, with the remaining amounts outstanding due at maturity, as specified in the repayment schedule of the loan agreement.

### ***Financial covenants:***

The Company is in compliance with the financial covenants included in the Wachovia EDC Facilities as at June 29, 2008. Continued compliance with the financial covenants for the next twelve months is dependent on the Company achieving certain minimum forecast results. In the event of non-compliance, the Company's lenders have the right to 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 to amend or waive the financial covenants.

### ***Classification of current portion of long-term debt:***

The classification of the current and long-term portion of long-term debt reflects the repayment terms of the new Wachovia EDC facilities which replaced the Wachovia Monroe facilities on August 7, 2008.

## **5. Capital stock**

### **Common shares**

#### ***Issued and outstanding:***

The outstanding number of common shares included in shareholders' equity consisted of the following as of June 29, 2008:

	<u>Number of shares</u>	<u>\$</u>
<b>Common Stock</b>		
<b>Exchangeable shares:</b>		
Balance at beginning of the six month period	791,533	\$ 7,489
Shares issued pursuant to:		
Conversion to common stock	<u>(28,300)</u>	<u>(267)</u>
Balance at end of the period	<u>763,233</u>	<u>\$ 7,222</u>
<b>Common shares:</b>		
Balance at beginning of the six month period	13,854,799	\$ 365
Shares issued pursuant to:		
Conversion of exchangeable shares	<u>28,300</u>	<u>—</u>
Balance at end of the period	<u>13,883,099</u>	<u>\$ 365</u>
<b>Special voting stock:</b>		
Balance at beginning of the six month period	<u>1</u>	<u>\$ —</u>
Balance at end of the period	<u>1</u>	<u>\$ —</u>
<b>Total Common stock</b>	<u>14,646,333</u>	<u>\$ 7,587</u>
<b>Warrants</b>		
<b>Common share warrants:</b>		
Balance at beginning of the six 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>
<b>Exchangeable share warrants:</b>		
Balance at beginning of the six 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>
<b>Total Warrants</b>	<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 6 of the Notes to the Consolidated Financial Statements within the Company's Form 10-K for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission (the "SEC") on March 31, 2008. There were no options granted during the three or six month periods ended June 29, 2008. The Company generally issues new shares when options are exercised. A summary of stock option activity for the six month period ended June 29, 2008 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, 2007	1,373,554	\$ 2.32		
Options forfeited	(661)	\$ 5.36		
Outstanding at June 29, 2008	<u>1,372,893</u>	<u>\$ 2.32</u>	<u>\$ 3,179</u>	<u>6.3</u>
Exercisable at June 29, 2008	<u>567,058</u>	<u>\$ 3.00</u>	<u>\$ 1,700</u>	<u>6.5</u>

During the three month periods ended June 29, 2008 and July 1, 2007, the Company recorded stock-based compensation expense and a corresponding increase in contributed surplus of \$124 and \$65, respectively. For the six month periods ended June 29, 2008 and July 1, 2007, the corresponding amounts recorded were \$212 and \$131, respectively. At June 29, 2008, compensation expense of \$474 related to non-vested stock options had not been recognized.

### **Deferred share units**

Deferred Share Units are granted to directors and the Chief Executive Officer of the Company as remuneration. During the three and six months ended June 29, 2008, 9,375 and 25,715 deferred share units were granted, respectively. During the three and six months ended July 1, 2007, 8,040 and 154,515 deferred share units were granted, respectively.

At June 29, 2008 and December 31, 2007, 371,260 and 345,545 deferred share units were outstanding, respectively.

Deferred Share Unit compensation expense for the three and six months ended June 29, 2008 was \$164 and \$284, respectively, compared with \$935 and \$1,006 for the three and six months ended July 1, 2007.

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

## [Table of Contents](#)

### 6. Restructuring and other charges

During 2002, the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the “2002 Plan”) and recorded restructuring and other charges consisting of: a write-down of goodwill and other intangibles; the costs of exiting equipment and facility leases; severance costs; asset impairment charges; inventory exposures and other facility exit costs. In 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”). In the second quarter of 2008 the Company undertook cost reduction initiatives while rebalancing manpower levels (the “2008 Plan”).

During the first quarter of 2008 the Company recorded a restructuring recovery of \$225 consisting of a dividend from liquidation proceeds of the Company’s Donegal, Ireland facility, which relate to restructuring activities under the 2002 Plan. There were no amounts in the restructuring accrual relating to the 2002 Plan as at either December 31, 2007 or June 29, 2008.

During the three months ended June 29, 2008 the Company made severance payments of \$30 under the 2006 Plan. During the three months ended July 1, 2007, the Company made severance payments of \$79 under the 2006 Plan. During the six months ended June 29, 2008 the Company made severance payments of \$70 under the 2006 Plan. During the six months ended July 1 2007, the Company made severance payments of \$198 under the 2006 Plan.

There were no remaining accrued amounts related to the 2007 Plan as at either December 31, 2007, or June 29, 2008.

In the second quarter of 2008, the Company recorded a restructuring charge of \$5,748, consisting of a \$518 severance charge at our Chihuahua facility, a \$159 severance charge at our Boston facility, a \$150 severance charge at the corporate level, and a \$4,921 asset impairment charge. The Company reduced 276 full time staff and approximately 100 temporary staff, mainly in Mexico, as a result of the planned movement of production to the Company’s China facility, and also in Boston, due to reduced revenues. The asset impairment charge was largely related to a write off of leasehold improvements acquired in 2000 at our Boston facility and was calculated using discounted cash flows.

The following table details the change in the restructuring accrual, for the three and six months ended June 29, 2008, relating to the 2006 Plan:

	<u>Severance</u>
<b>2006 Plan</b>	
Balance as at December 31, 2007	\$ 70
Payments	<u>(40)</u>
Balance as at March 30, 2008	30
Payments	<u>(30)</u>
Balance as at June 29, 2008	<u>\$ 0</u>

The following table details original charges, payments and adjustments and the related amounts included in accrued liabilities as at June 29, 2008 related to the 2008 Plan:

	<u>Asset impairment</u>	<u>Severance</u>	<u>Total</u>
<b>2008 Plan</b>			
2008 charges	\$ 4,921	\$ 827	\$ 5,748
Non-cash charges	(4,921)	—	(4,921)
Cash payments	—	(518)	(518)
Balance as at June 29, 2008	<u>\$ —</u>	<u>\$ 309</u>	<u>\$ 309</u>

### 7. Income taxes

During the three months ended June 29, 2008, the Company recorded a net income tax expense of \$25 related to minimum taxes in certain jurisdictions, and a net income tax expense of \$35 during the three months ended July 1, 2007. During the six months ended June 29, 2008, the Company recorded a net income tax expense of \$128 related to minimum taxes in certain jurisdictions.

## Table of Contents

During the six months ended July 1, 2007, the Company recorded a net recovery of \$1,543 as a result of the reversal of certain income tax accruals for which the statute of limitations expired.

At December 31, 2007, the Company had total net operating loss (“NOL”) carry forwards of \$84,895, of which \$2,458 will expire in 2010, \$1,259 will expire in 2012, \$10,278 will expire in 2014, \$4,155 will expire in 2015, \$1,078 will expire in 2018, \$60 will expire in 2019, \$30 will expire in 2020, \$40,784 will expire in 2021, and the remainder will expire between 2022 and 2027.

The Company had \$332 of gross unrecognized tax benefits at January 1, 2008. At June 29, 2008 the Company had gross unrecognized tax benefits of \$325, 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, which relate to uncertain tax positions, will decrease during the next twelve months. The decrease 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 had approximately \$138 and \$137 accrued for interest and penalties as of June 29, 2008 and December 31, 2007, respectively. The increase for the first six months of 2008 is primarily due to the recording of incremental interest on existing uncertain positions for the period, offset by the impact of foreign exchange revaluation.

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 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.

## 8. 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 per common share for the following periods:

	Three months ended		Six months ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
<i>(Number of common shares)</i>				
Basic weighted average shares outstanding	14,646,333	14,646,333	14,646,333	14,646,333
Dilutive stock options <sup>(a)</sup>	—	348,616	—	277,602
Diluted weighted average shares outstanding	14,646,333	14,994,949	14,646,333	14,923,935

<sup>(a)</sup> Dilutive stock options were determined using the treasury stock method. For the three months ended June 29, 2008 and July 1, 2007, the average share price used was \$2.16 and \$3.86 per share, respectively. For the six months ended June 29, 2008 and July 1, 2007, the average share price was \$1.86 and \$3.31, respectively

For both the three and six months ended June 29, 2008, the calculation did not include 1,372,893 stock options, 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 six months ended July 1, 2007, the calculation did not include 624,938 and 695,952 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.

[Table of Contents](#)

9. 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, Mexico and Asia. Operations in Asia became a material segment during the second quarter of 2008 with the establishment of the new facility in China. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges. 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 six months ended June 29, 2008 and July 1, 2007:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 29, 2008</u>	<u>July 1, 2007</u>	<u>June 29, 2008</u>	<u>July 1, 2007</u>
<b>Revenues</b>				
U.S.	\$17,515	\$26,033	\$ 33,355	\$ 48,956
Canada	19,076	16,254	35,157	35,477
Mexico	23,889	26,577	50,072	57,332
Asia	11,389	—	11,389	—
Total	<u>\$71,869</u>	<u>\$68,864</u>	<u>\$129,973</u>	<u>\$141,765</u>
<b>Intersegment revenue</b>				
U.S.	\$ (141)	\$ (73)	\$ (390)	\$ (122)
Canada	(1,865)	(911)	(2,911)	(2,000)
Mexico	(3,577)	(1,770)	(5,246)	(4,056)
Total	<u>\$ (5,583)</u>	<u>\$ (2,754)</u>	<u>\$ (8,547)</u>	<u>\$ (6,178)</u>
<b>Net external revenue</b>				
U.S.	\$17,374	\$25,960	\$ 32,965	\$ 48,834
Canada	17,211	15,343	32,246	33,477
Mexico	20,312	24,807	44,826	53,276
Asia	11,389	—	11,389	—
Total	<u>\$66,286</u>	<u>\$66,110</u>	<u>\$121,426</u>	<u>\$135,587</u>
<b>EBITA</b>				
U.S.	\$ 183	\$ 1,925	\$ 459	\$ 2,978
Canada	(520)	126	105	834
Mexico	221	(324)	532	820
Asia	332	—	332	—
Total	<u>\$ 216</u>	<u>\$ 1,727</u>	<u>\$ 1,428</u>	<u>\$ 4,632</u>
Interest	765	1,582	1,678	3,264
Restructuring charges	5,748	—	5,523	—
(Loss) earnings before income taxes	<u>\$ (6,297)</u>	<u>\$ 145</u>	<u>\$ (5,773)</u>	<u>\$ 1,368</u>

**Capital additions**

The following table contains capital additions for the three and six months ended June 29, 2008 and July 1, 2007:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 29, 2008</u>	<u>July 1, 2007</u>	<u>June 29, 2008</u>	<u>July 1, 2007</u>
U.S.	\$ 16	\$ 79	\$ 496	\$ 173
Canada	343	204	415	268
Mexico	381	879	781	1,030
Total	<u>\$ 740</u>	<u>\$1,162</u>	<u>\$1,692</u>	<u>\$1,471</u>

## [Table of Contents](#)

	<u>June 29, 2008</u>	<u>December 31, 2007</u>
<b>Long-lived assets <sup>(a)</sup></b>		
U.S.	\$ 1,059	\$ 5,891
Canada	2,692	2,770
Mexico	13,296	13,634
Total	<u>\$17,047</u>	<u>\$ 22,295</u>

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

### Geographic revenues

The following table contains geographic revenues based on the product shipment destination, for the three and six months ended June 29, 2008 and July 1, 2007:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 29, 2008</u>	<u>July 1, 2007</u>	<u>June 29, 2008</u>	<u>July 1, 2007</u>
U.S.	\$21,492	\$32,537	\$ 53,611	\$ 53,963
Canada	27,510	24,221	38,839	62,193
Europe	9,046	1,254	11,514	3,134
Asia	8,146	522	9,884	1,866
Mexico	92	7,576	7,578	14,431
Total	<u>\$66,286</u>	<u>\$66,110</u>	<u>\$121,426</u>	<u>\$135,587</u>

### 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 larger customers or any product line manufactured for one of its larger customers, it could experience a significant reduction in revenue. Also, the insolvency of one or more of its larger customers or the inability of one or more of its larger 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 June 29, 2008, three customers individually comprised 23.4%, 19.1% and 14.7% (July 1, 2007, three customers – 16.0%, 15.7% and 13.1%) of total revenue across all geographic segments. During the six months ended June 29, 2008, three customers individually comprised 22.3%, 18.8% and 14.9%; (July 1, 2007, three customers – 18.3%, 14.4% and 13.9%) of total revenue across all geographic segments. As of June 29, 2008, these customers represented 46%, 4% and 12%, respectively, (December 31, 2007, three customers – 29%, 9% and 12%, respectively) of the Company's trade accounts receivable.

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[Table of Contents](#)

**10. 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.

In 2007, a lawsuit was commenced against SMTC Manufacturing Corporation of Texas, a subsidiary of the Company, and certain of its subsidiaries, in the United States Bankruptcy Court for the Western District of Texas Austin Division by Ronald E. Ingalls, Chapter 7 Trustee, who claims that SMTC Manufacturing Corporation of Texas made fraudulent transfers of funds to certain subsidiaries of the Company despite having had reasonable cause to believe that it was insolvent. Management believes that the allegations in these claims are without merit and intends to defend against them vigorously. However, there can be no assurance that the outcome of the litigation will be favorable to the Company or will not have a material adverse impact on the Company's financial position or liquidity.

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## [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 the Company's Annual Report on Form 10-K filed on March 31, 2008. 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 March 31, 2008, 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.*

#### **Background**

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services, or EMS, including product design and sustaining engineering services, printed circuit board assembly, or PCBA, production, enclosure fabrication, systems integration and comprehensive testing services. SMTC facilities span a broad footprint in the United States, Canada, Mexico and China, with approximately 1,000 full-time employees. SMTC's services extend over the entire electronic product life cycle from the development and introduction of new products through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services with a distinctive approach to global original equipment manufacturers, or OEMs, and technology companies primarily within the industrial, computing and networking, and communications, consumer and medical market segments.

#### **Developments in 2008**

The first quarter is traditionally a challenging quarter for the Company and the industry. Revenue levels were somewhat lower than expected in the first quarter, the result of lower order levels from several customers and softness in certain customer end markets including semi-conductor capital and construction related equipment. Order levels from certain larger customers came in lower than management's expectations due to several factors including end market softness and product life cycle fluctuations. However, despite lower revenues, the Company remained profitable in the first quarter and continued to generate cash and reduce debt as planned.

In the second quarter, sales increased 20% to \$66.3 million over the first quarter of 2008 with growth from both longstanding customers and newer customers. However, operating earnings were adversely affected by sales mix and higher labor and overhead costs in part due to shifting production from the Company's Mexico site to its China facility. Accordingly, the Company initiated several cost reduction initiatives, resulting in a charge of \$0.8 million in severance, mainly in Mexico and Boston, and a \$4.9 million non-cash asset impairment charge for leasehold improvements in our Boston facility. Cash generation did not meet the expected target as two of our larger customers withheld payments until after the end of the quarter totaling approximately \$8 million. These payments were received the first week of July.

We were highly successful in ramping the new China facility to full production with continued excellent customer satisfaction. Our China facility produced approximately \$11.4 million in revenue in the quarter. While we are currently operating under a pre-existing manufacturing arrangement with Alco, we expect to operate under a joint venture arrangement within the second half of the year. Our new Enclosures Systems operations in Mexico had a number of qualification builds and initial production. This site is expected to increase production in the third quarter.

To improve financial flexibility and reduce interest rates, the Company entered into a second amended financing agreement with Wachovia and Export Development Canada ("EDC") subsequent to the end of the quarter, dated August 7, 2008 (the "Wachovia EDC Facilities"). Under the amendment, Wachovia improved certain borrowing base conditions based on eligible inventory and accounts receivable of the Company to allow increased borrowing capacity and increased the facility from \$40 million to \$45 million.

## [Table of Contents](#)

Also under this amendment, EDC replaces Garrison as the term debt lender. The proceeds from the EDC term debt of \$13 million, together with the increased borrowing capacity, were used to repay the entire Garrison term loan. The interest on the LIBOR based term debt assigned to EDC has been reduced from LIBOR plus 4% to LIBOR plus 3.5%, decreasing at various leverage rates. Covenants were changed and restrictions on certain investments and expenditures were improved.

### 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 14 of the consolidated financial statements included with the Annual Report on Form 10-K filed on March 31, 2008.

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

	Three months ended June 29, 2008		Three months ended July 1, 2007		Change 2008 to 2007	
	\$	%	\$	%	\$	%
Revenue	\$ 66.3	100.0%	\$ 66.1	100.0%	\$ 0.2	0.3%
Cost of sales	61.8	93.2%	60.3	91.2%	1.5	2.5%
Gross profit	4.5	6.8%	5.8	8.8%	(1.3)	(22.4)%
Selling, general and administrative expenses	4.3	6.5%	4.0	6.1%	0.3	7.5%
Restructuring charges	5.7	—	—	—	5.7	NA
Operating (loss) earnings	(5.5)	0.3%	1.8	2.7%	(7.3)	NA
Interest expense	0.8	1.2%	1.6	2.4%	(0.8)	(50.0)%
(Loss) earnings from continuing operations before income taxes	(6.3)	(9.5)%	0.2	0.3%	(6.5)	NA
Income tax expenses						
Current	—	0.0%	0.1	0.2%	(0.1)	NA
Deferred	—	0.0%	—	0.0%	—	NA
	—	0.0%	0.1	0.2%	(0.1)	NA
Net (loss) earnings	\$ (6.3)	(9.5)%	\$ 0.1	0.2%	\$(6.4)	NA

### Quarter ended June 29, 2008 compared with the quarter ended July 1, 2007:

#### Revenue

Revenue of \$66.3 million for the second quarter of 2008 was unchanged overall from the second quarter of 2007, however the composition of our revenue has changed. The second quarter of 2008 compared with 2007 shows positive growth from newer customers of approximately \$3 million as well as strong growth from several of our longstanding customers totaling approximately \$9 million, two with record quarters. However, revenues in 2008 continue to be negatively impacted by demand reductions primarily from certain longstanding customers experiencing end market softness in the construction and semi-conductor equipment sectors, as well as product life cycle changes.

During the second quarter of 2008, revenue from the industrial sector increased compared with the same quarter of 2007, \$47.6 million for the second quarter of 2008 compared with \$42.6 million for the same period in 2007, a result of the growth referred to above being generated largely by our industrial customers. Accordingly, revenue from the industrial sector represented an increased share of our business at 71.8% of revenue in the second quarter of 2008, compared with 64.4% of revenue in the second quarter of 2007.

Revenue from the communications sector decreased compared with the same quarter of 2007, \$8.3 million for the second quarter of 2008 compared with \$10.1 million in 2007, which represented 12.5% of revenue in the second quarter of 2008, compared with 15.3% of revenue in the second quarter of 2007 largely due to short-term variations in customer business levels. Revenue from the networking and enterprise computing sector decreased compared with the same quarter of 2007, \$10.4 million for the second quarter of 2008 compared with \$13.4 million in 2007, which represented 15.7% of revenue in the second quarter of 2008, down from 20.3% of revenue in the second quarter of 2007, largely due to customers experiencing end market softness in the semi-conductor capital business and product life cycle changes.

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## Table of Contents

During the second quarter of 2008, we recorded approximately \$1.6 million of sales of raw materials inventory to customers, which carried no margin, compared with \$0.9 million in the second quarter of 2007. 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 84.4% of revenue during the second quarter of 2008, compared with 82.6% in the second quarter of 2007. Revenue from our three largest customers during the second quarter of 2008 were \$15.5 million from Ingenico S. A. ("Ingenico"), \$12.7 million from Harris Broadcast Infrastructure and Digital Media (a subsidiary of Harris Corporation) ("Harris"), and \$9.7 million from MEI, Inc. (formerly MEI Electronics) ("MEI"), representing 23.4%, 19.1% and 14.7% of total revenue for the second quarter of 2008, respectively. This compares with revenue of \$10.6 million from Harris, \$10.4 million from Ingenico, and \$8.6 million from MEI, representing 16.0%, 15.7% and 13.1% of total revenue for the second quarter of 2007, respectively. No other customers represented more than 10% of revenue in either period.

During the second quarter of 2008 production for one customer was shifted from Mexico to the new China facility. 30.6% of our revenue was attributable to our operations in Mexico, 26.2% in the U.S., 26.0% in Canada, and 17.2% in Asia. During the second quarter of 2007, 37.5% of our revenue was attributable to our operations in the Mexico, 39.3% in the United States and 23.2% in Canada. 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 second quarter of 2008 decreased by \$1.3 million, or 22.4%, to \$4.5 million compared with the same period in 2007. This is largely due to a reduced revenue level in our Enclosures Systems division in Boston and the resulting effect on fixed costs, additional costs related to the new operations, a change in customer mix and higher labor costs in certain sites.

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 increased by \$0.3 million, or 7.5%, during the second quarter of 2008 to \$4.3 million, from \$4.0 million in the second quarter of 2007.

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.

### ***Interest Expense***

Interest expense decreased from \$1.6 million in the second quarter of 2007 to \$0.8 million for the second quarter of 2008, a decrease of \$0.8 million primarily resulting from reduced debt levels and lower interest rates due to market rate reductions as well as the refinancing completed in mid 2007. Interest expense in the second quarter of 2008 included the amortization of deferred financing fees of \$0.1 million, compared with \$0.4 million in the second quarter of 2007. Interest expense in the second quarter of 2007 also included a reduction in interest expense of \$0.1 million related to amortization of the value of cancelled warrants. Excluding the amortization of deferred financing fees, and the reduction in interest expense related to the amortization of cancelled warrants in the prior year, interest expense was \$0.7 million for the second quarter of 2008 and \$1.3 million for the second quarter of 2007. The weighted average interest rates with respect to the debt were 6.8% and 10.1% for each of the second quarters of 2008 and 2007, respectively.

### ***Restructuring Charges***

In the second quarter of 2008, the Company recorded a restructuring charge of \$5.7 million, consisting of a \$0.5 million severance charge at our Chihuahua facility, a \$0.2 million severance charge at our Boston facility, a \$0.1 million severance charge at the corporate level, and a \$4.9 million asset impairment charge. The Company reduced 276 full time staff and approximately 100 temporary staff, mainly in Mexico as a result of the planned movement of production to the Company's China facility, and also in Boston, due to reduced revenues. The asset impairment charge was largely related to a write off of leasehold improvements in our Boston facility.

## [Table of Contents](#)

### *Income Tax Expense*

During the second quarters of 2007 and 2008, the Company recorded no net income tax expense.

At December 31, 2007, the Company had total net operating loss carry-forwards of approximately \$84.9 million, of which \$2.5 million will expire in 2010, \$1.3 million will expire in 2012, \$10.3 million will expire in 2014, \$4.2 million will expire in 2015, \$1.1 million will expire in 2018, \$0.1 million will expire in 2019, \$40.8 million will expire in 2021, and the remainder will expire between 2022 and 2027.

The Company had \$0.3 million of gross unrecognized tax benefits at January 1, 2008 and June 29, 2008, 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, which relate to uncertain tax positions, will decrease during the next twelve months.

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.

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

	Six months ended June 29, 2008		Six months ended July 1, 2007		Change 2008 to 2007	
	\$	%	\$	%	\$	%
Revenue	\$121.4	100.0%	\$135.6	100.0%	\$(14.2)	(10.5)%
Cost of sales	112.6	92.8%	123.3	90.9%	(10.7)	(8.7)%
Gross profit	8.8	7.2%	12.3	9.1%	(3.5)	(28.5)%
Selling, general and administrative expenses	7.4	6.1%	7.6	5.6%	(0.2)	(2.6)%
Restructuring charges	5.5	4.5%		0.0%	5.5	NA
Operating earnings	(4.1)	(3.4)%	4.7	3.5%	(8.8)	(187.2)%
Interest expense	1.7	1.4%	3.3	2.4%	(1.6)	(48.5)%
Earnings from continuing operations before income taxes	(5.8)	(4.8)%	1.4	1.0%	(7.2)	(514.3)%
Income tax (recovery) expenses						
Current	0.1	0.1%	(1.4)	(1.0)%	1.5	NA
Deferred	—	0.0%	(0.1)	(0.1)%	0.1	NA
	0.1	0.1%	(1.5)	(1.1)%	1.6	NA
Net earnings from continuing operations	\$ (5.9)	(4.9)%	\$ 2.9	2.1%	\$ (8.8)	(303.4)%

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## [Table of Contents](#)

### **Six months ended June 29, 2008 compared with six months ended July 1, 2007**

#### *Revenue*

Revenue decreased \$14.2 million, or 10.5%, from \$135.6 million for the first six months of 2007 to \$121.4 million for the first six months of 2008. With second quarter revenues unchanged, the decrease in revenue is due to lower first quarter revenues in 2008 compared with the first quarter of 2007. The first quarter of 2007 was particularly strong, led by a record first quarter for one of our larger customers, in what is traditionally a weaker quarter for SMTC and the industry. Overall, the first half of 2008 was negatively impacted by a reduction of revenue from longstanding customers experiencing end market softness in the construction and semi-conductor equipment sector, a reduction from a longstanding customer experiencing fluctuations due to product life cycle and, a newer customer that is incurring some quarter to quarter production requirement fluctuations due to inventory corrections.

During the first six months of 2008, revenue from the industrial sector represented 69.5% of revenue compared to 66.7% of revenue for the first six months of 2007. The percentage of sales attributable to the enterprise computing and networking sector and the communications sector were 17.6% and 12.9%, respectively, for the first six months of 2008 compared with 18.8% and 14.5%, respectively, for the first six months of 2007.

Revenue generated from the industrial sector decreased \$6.0 million in the first six months of 2008 compared to the first six months of 2007 at \$84.4 million and \$90.4 million, respectively. The corresponding increase in the percentage of revenue generated from the industrial sector in the first six months of 2008 compared with the first six months of 2007 is due largely to the growth in revenue from Ingenico, MEI and Harris in the first six months of 2008.

In both relative and absolute terms, the revenue generated from the communications sector in the first six months declined. The absolute dollars declined \$4.0 million from \$19.6 million in the first six months of 2007 to \$15.6 million in the first six months of 2008 largely due to a decline in revenue from longstanding customers somewhat offset by growth in volume from several smaller customers. The percentage of revenue generated from the communications sector in the first six months of 2008 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.

In absolute terms the revenue generated from the enterprise computing and networking sector in the first six months of 2008 when compared with the first six months of 2007 decreased \$4.1 million, from \$25.5 million to \$21.4 million largely due to a customer experiencing weakness in the semi-conductor equipment market. In relative terms, the percentage of revenue generated from the enterprise computing and networking sector in the first six months of 2008 compared with the first six months of 2007 decreased largely due to the significant increase in growth in the industrial sector.

During the first six months of 2008, we recorded approximately \$2.3 million of sales of raw materials inventory to customers, which carried no margin, compared to \$2.1 million in the first six months of 2007. The Company purchases raw materials based on customer purchase orders. To the extent the customer requires these orders to be altered or changed, the customer is generally obligated to purchase the original on-order raw material.

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 six months of 2008, the Company's ten largest customers represented 83.4% of revenue compared with 81.3% for the same period last year. Revenue from our largest customers during the first six months of 2008 was \$27.0 million from Ingenico, \$22.8 million from Harris and \$18.1 million from MEI representing 22.3%, 18.8%, and 14.9%, respectively, of total revenue for the period. This compares with revenue of \$24.8 million from Ingenico, \$19.5 million from MEI, and \$18.9 million from Harris representing 18.3%, 14.4%, and 13.9%, 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 six months of 2008, 36.9% of our revenue was produced from operations in Mexico, 27.1% from the United States, 26.6% from Canada, and 9.4% from Asia. During the first six months of 2007, 39.3% of our revenue was produced from operations in Mexico, 36.0% from the United States and 24.7% from Canada. During the second quarter of 2008, production for Ingenico was shifted from Mexico to our new China facility.

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.

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## Table of Contents

### *Gross Profit*

Gross profit decreased \$3.5 million from \$12.3 million, or 9.1% of revenue, for the first six months of 2007 to \$8.8 million, or 7.2% of revenue, for the first six months of 2008. The decrease in the gross margin in the first six months of 2008 is largely due to reduced revenue, increased labor and overhead costs, partially due to currency rates, and customer mix.

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 \$0.2 million from \$7.6 million, or 5.6% of revenue, for the first six months of 2007 to \$7.4 million, or 6.1% of revenue, for the first six months of 2008. The decrease is related to stock-based compensation expense in 2007, somewhat offset by variable compensation costs.

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 Charges*

The Company recorded a restructuring recovery in the first quarter of 2008, consisting of a dividend of \$0.2 million from the liquidation of the Company's Donegal, Ireland facility, which was initiated under the Company's restructuring plan of 2002. In the second quarter of 2008, the Company recorded a restructuring charge of \$5.7 million, consisting of a \$0.5 million severance charge at our Chihuahua facility, a \$0.2 million severance charge at our Boston facility, a \$0.1 million severance charge at the corporate level, and a \$4.9 million asset impairment charge. The Company reduced 276 full time staff and approximately 100 temporary staff, mainly in Mexico as a result of the planned movement of production to the Company's China facility, and also in Boston, due to reduced revenues. The asset impairment charge was largely related to a write off of leasehold improvements in our Boston facility.

### *Interest Expense*

Interest expense decreased \$1.6 million from \$3.3 million for the first six months of 2007 to \$1.7 million for the first six months of 2008, primarily due to reduced debt levels and reduced interest rates as a result of the refinancing completed in 2007. Interest expense for the first six months of 2008 includes the amortization of deferred financing fees of \$0.2 million, while interest expense for the first six months of 2007 included amortization of deferred financing fees of \$0.8 million, offset by a reduction in interest expense of \$0.2 million related to the amortization of the value of the cancelled warrants. Excluding the amortization of deferred financing fees and the reduction in interest expense related to the amortization of the value of the cancelled warrants, interest expense was \$1.5 million for the first six months of 2008 and \$2.7 million for the first six months of 2007. The weighted average interest rates with respect to the debt for the first six months of 2008 and 2007 were 7.3% and 10.1%, respectively.

### *Income Tax Expense*

During the first six months of 2008, the Company recorded a net income tax expense of \$0.1 million related to minimum taxes in certain jurisdictions, compared with a net income tax recovery of \$1.5 million, resulting from the reversal of accruals for which the statute of limitations expired, during the first six months of 2007.

At December 31, 2007, the Company had total net operating loss carry-forwards of approximately \$84.9 million, of which \$2.5 million will expire in 2010, \$1.3 million will expire in 2012, \$10.3 million will expire in 2014, \$4.2 million will expire in 2015, \$1.1 million will expire in 2018, \$0.1 million will expire in 2019, \$40.8 million will expire in 2021, and the remainder will expire between 2022 and 2027.

The Company had \$0.3 million of gross unrecognized tax benefits at January 1, 2008 and at June 29, 2008, 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, which relate to uncertain tax positions, will decrease during the next twelve months.

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.

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## Table of Contents

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**

Net cash used in operating activities during the six months ended June 29, 2008 was \$2.8 million. The use of cash resulted from an increase in net working capital requirements of \$4.4 million primarily due to increases accounts receivable and inventory, partially offset by an increase in accounts payable. The increase in accounts receivable was due to the timing of receipts for two large customer accounts, while the increase in inventory was related to a planned build as we transitioned a customer from Mexico to China. Accounts receivable days sales outstanding were 53 days for each of the six months ended June 29, 2008 and July 1, 2007. Inventory turnover, on an annualized basis was, 6.5 times for the six months ended June 29, 2008 and compared to 6.8 times for the six months ended July 1, 2007. Accounts payable days outstanding were 66 days at the end of the second quarter of 2008 compared to 51 days for the same period in 2007.

Net cash provided by financing activities during the six months ended June 29, 2008 was \$3.1 million and in the six months ended July 1, 2007 net cash used was \$10.0 million. During the six months ended June 29, 2008, the Company borrowed \$3.5 million, while during the same period in 2007 the Company repaid debt of \$9.6 million.

Net cash used by investing activities during the six months ended June 29, 2008 was \$0.5 million and the six months ended July 1, 2007 was \$1.5 million, pertaining to additions of property, plant and equipment in both periods.

### **Capital Resources**

To improve financial flexibility and reduce interest rates, the Company entered into a second amended financing agreement with Wachovia and Export Development Canada (“EDC”) subsequent to the end of the quarter, dated August 7, 2008 (the “Wachovia EDC Facilities”). Under the amendment, Wachovia improved certain borrowing base conditions based on eligible inventory and accounts receivable of the Company to allow increased borrowing capacity and increased the facility from \$40 million to \$45 million. Also under this amendment, EDC replaces Garrison as the term debt lender. The proceeds from the EDC term debt of \$13 million, together with the increased borrowing capacity, were used to repay the entire Garrison loan. The interest on the LIBOR based term debt assigned to EDC has been reduced from LIBOR plus 4% to LIBOR plus 3.5%, decreasing at various leverage rates. Financial covenants were changed as were restrictions on certain investments and expenditures.

We believe that cash generated from operations, available cash and amounts available under our Wachovia EDC 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 EDC 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 six months ended June 29, 2008, equipment of \$1.0 million was acquired via capital leases.

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[Table of Contents](#)

**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 June 29, 2008 was 6.8%. At June 29, 2008, the interest rate on our U.S. revolving credit facility would have been 6.25% based on the U.S. prime rate, our U.S. term debt bore interest at 6.38% based on LIBOR, and our Canadian term debt bore interest at 6.38% 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 and component purchases are denominated in U.S. dollars. Our Canadian and Mexican payroll, Euro based component purchases and other various expenses are 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 much greater variations. Every \$0.01 change in the US dollar versus the Canadian dollar results in an annual change in expenses of approximately \$0.15 million. The strengthening of the Canadian dollar would result in an increase in costs to the organization and may lead to a reduction in reported earnings.

**Item 4T 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 was no change in the Company's internal controls over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect these controls identified in connection with the most recent evaluation of these controls by the Company's Principal Executive Officer and Principal Financial Officer.

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## [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, 2007. The two risk factors below were disclosed on the Form 10-K and have been updated to provide revised information as of June 29, 2008.

#### **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 23.4%, 19.1% and 14.7% of total revenue for the three months ended June 29, 2008, respectively. For the second quarter of 2008, our top ten largest customers (which includes Ingenico, Harris and MEI) collectively represented 84.4% 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.

#### **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 7, 2008, we entered into an amended financing agreement with Wachovia and Export Development Canada to refinance the Company’s short and long term debt. Under the amendment, Wachovia improved certain borrowing base conditions based on eligible inventory and accounts receivable of the Company to allow increased borrowing capacity and increased the facility from \$40 million to \$45 million. Also under this amendment, EDC replaces Garrison as the term debt lender. The proceeds from the EDC term debt of \$13 million, together with the increased borrowing capacity, were used to repay the entire Garrison loan. The interest on the LIBOR based term debt assigned to EDC has been reduced from LIBOR plus 4% to LIBOR plus 3.5%, decreasing at various leverage rates. Covenants were changed and restrictions on certain investments and expenditures. Our debt under the Wachovia EDC 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 in our borrowing of additional funds and making strategic investments by restrictive covenants and the borrowing base formula in our credit arrangements.
- We may fail to comply with covenants under which we borrowed our indebtedness, including various financial covenants under our Wachovia EDC 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 EDC Facilities.
- Our Wachovia EDC 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 EDC Facilities or successor facilities.

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[Table of Contents](#)

**Item 5 Other Information**

During the quarter, the Company was informed that Monroe had assigned all of its rights, title and interest in the term debt to a fund held by Garrison Investment Group LLC.

On August 7, 2008, the Company entered into a second amended and restated loan agreement in the US and Canada with Wachovia and Export Development Canada dated August 7, 2008. Under the amendment, Wachovia amended certain borrowing base conditions based on eligible inventory and accounts receivable of the Company to allow increased borrowing capacity and increased the facility from \$40,000 to \$45,000. Also under this amendment, EDC replaces Garrison as the term debt lender. The proceeds from the EDC term debt of \$13 million, together with the increased borrowing capacity, were used to repay the entire Garrison loan. The interest on the LIBOR based term debt assigned to EDC has been reduced from LIBOR plus 4% to LIBOR plus 3.5%, decreasing at various leverage rates. Financial covenants were changed as were restrictions on certain investments and expenditures.

In addition, the Board of Directors of the Company also approved the amended and restated by-laws, which have been revised to remove all provisions granting privileges to any individual shareholder, to increase to three the number of nominees to the board a stockholder may recommend each year and to remove the minimum stock ownership qualification for stockholder nominees.

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[Table of Contents](#)

**Item 6 Exhibits**

- 3.1 Amended and restated by-laws of the Company
- 10.1 Second Amended and Restated U.S. Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, and SMTC Mex Holdings, Inc.
- 10.2 Second Amended and Restated Canadian Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Canada), and SMTC Manufacturing Corporation of Canada.
- 10.3 Amending Agreement dated August 7, 2008.
- 31.1 Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 13, 2008.
- 31.2 Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 13, 2008.
- 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 August 13, 2008.
- 32.2 Certification of Jane Todd, 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 August 13, 2008.

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[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: August 13, 2008

**EXHIBIT INDEX**

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**AMENDED AND RESTATED  
BY-LAWS  
OF  
SMTC CORPORATION**

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## **ARTICLE 1 - OFFICES**

1.1 **Registered Offices.** The registered office of SMTC Corporation (the "Corporation") in the State of Delaware shall be located at 1013 Centre Road, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address shall be Corporation Service Company. The registered office and/or registered agent of the Corporation may be changed from time to time by action of the Board of Directors.

1.2 **Other offices.** The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

1.3 **Books.** The books of the Corporation may be kept within or without of the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

## **ARTICLE 2 - STOCKHOLDERS**

2.1 **Place of Meetings.** All meetings of stockholders shall be held at such place within or without the State of Delaware as may be designated from time to time by the Board of Directors or the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) or, if not so designated, at the registered office of the Corporation.

2.2 **Annual Meeting.** The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held within six months after the end of each fiscal year on a date to be fixed by the Board of Directors or the Chief Executive Officer (or, if there is no Chief Executive Officer, the President), unless that day be a legal holiday at the place where the meeting is to be held, in which case the meeting shall be held at the same hour on the next succeeding day not a legal holiday, or at such other date and time as shall be fixed by the Board of Directors or the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) and stated in the notice of the meeting. If no annual meeting is held in accordance with the foregoing provisions, the Board of Directors shall cause the meeting to be held as soon thereafter as convenient. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of stockholders shall be deemed to refer to such special meeting.

2.3 **Special Meeting.** Special meetings of stockholders may be called at any time by only the Chairman of the Board of Directors, the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) or by the Board of Directors of the Corporation pursuant to a resolution adopted by the affirmative vote of a majority of the total number of directors then in office. Any business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

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2.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notices of all meetings shall state the place, date and hour of the meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the Corporation.

2.5 Voting List. The officer who has charge of the stock ledger of the Corporation shall prepare, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, at a place within the city where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time of the meeting, and may be inspected by any stockholder who is present.

2.6 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the holders of a majority of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business.

2.7 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws by a majority of the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as Secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than thirty (30) days if the time and place of the adjourned meeting are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting.

2.8 Voting and Proxies. Except as otherwise provided by the General Corporation Law of the State of Delaware, the Certificate of Incorporation or these By-Laws, each stockholder shall have one vote for each share of capital stock entitled to vote and held of record by such stockholder. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person or may authorize another person or persons to vote or act for him or her by written proxy executed by the stockholder or his or her authorized agent and delivered to the Secretary of the Corporation. No such proxy shall be voted or acted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

2.9 Proxy Representation. Every stockholder may authorize another person or persons to act for him or her by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, objecting to or voting or participating at a meeting, or expressing consent or dissent without a meeting. The delivery of a proxy on behalf of a stockholder consistent with telephonic or electronically transmitted instructions obtained pursuant to procedures of the Corporation reasonably designed to verify that such instructions have been authorized by such stockholder shall constitute execution and delivery of the

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proxy by or on behalf of the stockholder. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. The authorization of a proxy may but need not be limited to specified action, provided, however, that if a proxy limits its authorization to a meeting or meetings of stockholders, unless otherwise specifically provided such proxy shall entitle the holder thereof to vote at any adjourned session but shall not be valid after the final adjournment thereof. A proxy purporting to be authorized by or on behalf of a stockholder, if accepted by the Corporation in its discretion, shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

2.10 Action at Meeting. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Certificate of Incorporation or by these By-laws. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

2.11 Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. The nomination for election to the Board of Directors of the Corporation at a meeting of stockholders may be made by the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at such meeting who complies with the notice procedures set forth in this Section 2.11; provided, however, that a stockholder may not nominate more than three (3) candidates annually. Such nominations, other than those made by or on behalf of the Board of Directors, shall be made by notice in writing delivered or mailed by first class United States mail, postage prepaid, to the Secretary, and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that if the annual meeting is not held within thirty (30) days before or after such anniversary date, then such nomination shall have been delivered to or mailed and received by the Secretary not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. Such notice shall set forth (a) as to each proposed nominee (i) the name, age, business address and, if known, residence address of each such nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee, and (iv) any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including such person's written consent to be named as a nominee and to serve as a director if elected; and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such stockholder (and evidence of such ownership if not also held of record by such stockholder). The Corporation may require any proposed nominee or nominating stockholder to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of a proposed nominee to serve as a director of the Corporation.

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The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

2.12 Notice of Business at Annual Meetings. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, (c) otherwise properly brought before an annual meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, if such business relates to the election of directors of the Corporation, the procedures in Section 2.11 must be complied with. If such business relates to any other matter, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that if the annual meeting is not held within thirty (30) days before or after such anniversary date, then for the notice by the stockholder to be timely it must be so received not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.12, except that any stockholder proposal which complies with Rule 14a-8 of the proxy rules, or any successor provision, promulgated under the Securities Exchange Act of 1934, as amended, and is to be included in the Corporation's proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 2.12.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1.12, and if he or she should so determine, the chairman shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.13 Action without Meeting. For so long as this Corporation shall have a class of stock registered pursuant to the provisions of the Securities Exchange Act of 1934, stockholders may not take any action by written consent in lieu of a meeting.

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2.14 Organization. The Chairman of the Board, or in his or her absence the President shall call meetings of the stockholders to order, and act as chairman of such meeting; provided, however, that the Board of Directors may appoint any stockholder to act as chairman of any meeting in the absence of the Chairman of the Board. The Secretary of the Corporation shall act as secretary at all meetings of the stockholders; provided, however, that in the absence of the Secretary at any meeting of the stockholders, the acting chairman may appoint any person to act as secretary of the meeting.

### **ARTICLE 3 - DIRECTORS**

3.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the Corporation except as otherwise provided by law, the Certificate of Incorporation or these By-Laws. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until the vacancy is filled.

3.2 Number; Election and Qualification. The number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors, but in no event shall be less than three. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote on such election. The directors need not be stockholders of the Corporation.

3.3 Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class III, and if such fraction is two-thirds, one of the extra directors shall be a member of Class III and one of the extra directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

3.4 Terms of Office. Except as otherwise provided in the Certificate of Incorporation or these By-Laws, each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, however, that each initial director in Class I shall serve for a term ending on the date of the annual meeting of stockholders in 2001; each initial director in Class II shall serve for a term ending on the date of the annual meeting of stockholders in 2002; and each initial director in Class III shall serve for a term ending on the date of the annual meeting of stockholders in 2003; and provided, further, that the term of each director shall be subject to the election and qualification of his or her successor and to his or her earlier death, resignation or removal.

3.5 Allocation of Directors Among Classes in the Event of Increases or Decreases in the Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he or she is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has

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more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

3.6 Vacancies. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board of Directors, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his or her successor and to his or her earlier death, resignation or removal.

3.7 Resignation. Any director may resign by delivering his or her written resignation to the Corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

3.8 Regular Meetings. The regular meetings of the Board of Directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the Board of Directors; provided, that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

3.9 Special Meetings. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware, designated in a call by the Chairman of the Board of Directors, the Chief Executive Officer (or if there is no Chief Executive Officer, the President), two or more directors or by one director in the event that there is only a single director in office.

3.10 Notice of Special Meetings. Notice of any special meeting of the Board of Directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. The notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least twenty four (24) hours in advance of the meeting, (ii) by sending a telegram, telecopy, or telex, or delivering written notice by hand, to his or her last known business or home address at least twenty four (24) hours in advance of the meeting, or (iii) by mailing written notice to his or her last known business or home address at least seventy two (72) hours in advance of the meeting. A notice or waiver of notice of a special meeting of the Board of Directors need not specify the purposes of the meeting.

3.11 Meetings by Telephone Conference Calls. The Board of Directors or any members of any committee of the Board of Directors designated by the directors may participate in a meeting of the Board of Directors or such committee by means of conference telephone, video conference or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at such meeting.

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3.12 Quorum. A majority of the total number of the whole Board of Directors shall constitute a quorum at all meetings of the Board of Directors. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each such director so disqualified; provided, however, that in no case shall less than one-third (1/3) of the number of directors so fixed constitute a quorum. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, other than announcement at the meeting, until a quorum shall be present.

3.13 Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these By-Laws.

3.14 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee of the Board of Directors may be taken without a meeting, if all members of the Board or committee, as the case may be, consent to the action in writing, and the written consents are filed with the minutes of proceedings of the Board of Directors or committee of the Board of Directors, as applicable.

3.15 Removal. The directors of the Corporation may not be removed without cause and may be removed for cause only by the affirmative vote of the holders of seventy-five percent (75%) of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote generally in the election of directors cast at a meeting of the stockholders called for that purpose.

3.16 Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members of the committee present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the General Corporation Law of the State of Delaware, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-Laws for the Board of Directors.

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3.17 Compensation of Directors. The directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the Corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

#### **ARTICLE 4 - OFFICERS**

4.1 Enumeration. The officers of the Corporation shall consist of a Chief Executive Officer, a President, a Chief Financial Officer, a Secretary and a Treasurer. The Board of Directors may appoint other officers with such titles and powers as it may deem appropriate, including, without limitation one or more Vice Presidents and one or more Controllers.

4.2 Election. The Chief Executive Officer, President, Chief Financial Officer, Secretary and Treasurer shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

4.3 Qualification. No officer need be a stockholder of the Corporation. Any two or more offices may be held by the same person.

4.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each officer shall hold office until his or her successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him or her, or until his or her earlier death, resignation or removal.

4.5 Resignation and Removal. Any officer may resign by delivering his or her written resignation to the Corporation at its principal office or to the Chief Executive Officer or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of directors then in office.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his or her resignation or removal, or any right to damages on account of such removal, whether his or her compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the Corporation.

4.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of Chief Executive Officer, President, Secretary and Treasurer. Each such successor shall hold office for the unexpired term of his or her predecessor and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal.

4.7 Chairman of the Board. The Board of Directors may appoint a Chairman of the Board. If the Board of Directors appoints a Chairman of the Board, he or she shall perform such duties and possess such powers as are assigned to him or her by the Board of Directors.

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4.8 Chief Executive Officer. The Chief Executive Officer shall, subject to the direction of the Board of Directors, have general charge and supervision of the business of the Corporation. Unless otherwise provided by the Board of Directors, he or she shall preside at all meetings of the stockholders and, if he or she is a director and subject to the provisions of Section 4.7, at all meetings of the Board of Directors. The Chief Executive Officer shall perform such other duties and possess such other powers as the Board of Directors may from time to time prescribe.

4.9 President. The President shall perform such duties and possess such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Chief Executive Officer, the President shall perform the duties of the Chief Executive Officer and when so performing shall have all the powers of and be subject to all the restrictions upon the office of Chief Executive Officer.

4.10 Chief Financial Officer. The Chief Financial Officer shall perform such duties and possess such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. The Chief Financial Officer shall have the custody of the corporate funds and securities; shall keep full and accurate all books and accounts of the Corporation as shall be necessary or desirable in accordance with applicable law or generally accepted accounting principles; shall deposit all monies and other valuable effects in the name and to the credit of the Corporation as may be ordered by the Chairman of the Board or the Board of Directors; shall cause the funds of the Corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the Board of Directors, at its regular meeting or when the Board of Directors so requires, an account of the Corporation.

4.11 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other such title.

4.12 Controllers. Any Controller shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or any Vice President may from time to time prescribe. The Board of Directors may assign to any Controller the title of Assistant Controller or any other such title.

4.13 Secretary. The Secretary shall perform such duties and possess such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the Secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

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In the event of the absence, inability or refusal to act of the Secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

4.14 Treasurer. The Treasurer shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the Chief Financial Officer may from time to time prescribe. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of Treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the Corporation, to deposit funds of the Corporation in depositories selected in accordance with these By-Laws, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the Corporation. Unless the Board of Directors has designated another officer as Chief Financial Officer, the Treasurer shall be the Chief Financial Officer of the Corporation.

In the event of the absence, inability or refusal to act of the Treasurer, the Board of Directors shall appoint a temporary treasurer, who shall perform the duties and exercise the powers of the Treasurer.

4.15 Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these By-laws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board of Directors.

4.16 Salaries. Officers of the Corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

#### **ARTICLE 5 - CAPITAL STOCK**

5.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the Corporation or the whole or any part of any unissued balance of the authorized capital stock of the Corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

5.2 Certificates of Stock. Every holder of stock of the Corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned by him or her in the Corporation. Each such certificate shall be signed by, or in the name of the Corporation by, the Chairman of the Board of Directors, the Chief Executive Officer or the President, and the Treasurer or the Secretary of the Corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the By-Laws, applicable securities laws or any agreement among any number of stockholders or among such holders and the Corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

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5.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the Corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these By-Laws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-Laws.

5.4 Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the Corporation or any transfer agent or registrar.

5.5 Record Date. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

5.6 Dividends. Subject to limitations contained in the General Corporation Law of the State of Delaware, the Certificate of Incorporation and these By-laws, the Board of Directors may declare and pay dividends upon the shares of capital stock of the Corporation, which dividends may be paid either in cash, in property or in shares of the capital stock of the Corporation.

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## ARTICLE 6 - GENERAL PROVISIONS

6.1 Fiscal Year. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the Corporation shall begin on the first day of January in each year and end on the last day of December in each year.

6.2 Corporate Seal. The corporate seal shall be in such form as shall be approved by the Board of Directors.

6.3 Waiver of Notice. Whenever any notice whatsoever is required to be given by law, by the Certificate of Incorporation or by these By-Laws, a waiver of such notice either in writing signed by the person entitled to such notice or such person's duly authorized attorney, or by telegraph, cable or any other available method, whether before, at or after the time stated in such waiver, or by the appearance of such person at such meeting in person or by proxy, shall be deemed equivalent to such notice. Any member of the Board of Directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

6.4 Voting of Securities. Except as the directors may otherwise designate, the Chief Executive Officer or Treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this Corporation (with or without power of substitution) at, any meeting of stockholders or shareholders of any other Corporation or organization, the securities of which may be held by this Corporation.

6.5 Evidence of Authority. A certificate by the Secretary, or a temporary secretary, as to any action taken by the stockholders, directors, a committee or any officer or representative of the Corporation shall, as to all persons who rely on the certificate in good faith, be conclusive evidence of such action.

6.6 Certificate of Incorporation. All references in these By-Laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the Corporation, as amended or restated and in effect from time to time.

6.7 Transactions with Interested Parties. No contract or transaction between the Corporation and one or more of the directors or officers, or between the Corporation and any other Corporation, partnership, association, or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors which authorizes the contract or transaction or solely because his, her or their votes are counted for such purpose, if:

(1) The material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee of the Board of Directors in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

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(2) The material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

6.8 Severability. Any determination that any provision of these By-Laws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these By-Laws.

6.9 Pronouns. All pronouns used in these By-Laws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

6.10 Contracts. In addition to the powers otherwise granted to officers pursuant to Article 4 hereof, the Board of Directors may authorize any officer or officers, or any agent or agents, of the Corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

6.11 Loans. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or of its subsidiaries, including any officer or employee who is a Director of the Corporation or its subsidiaries, whenever, in the judgment of the Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under any statute.

6.12 Inspection of Books and Records. The Board of Directors shall have power from time to time to determine to what extent and at what times and places and under what conditions and regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by the laws of the State of Delaware, unless and until authorized so to do by resolution of the Board of Directors or of the stockholders of the Corporation.

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6.13 Section Headings. Section headings in these By-laws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

6.14 Inconsistent Provisions. In the event that any provision of these By-laws is or becomes inconsistent with any provision of the Restated Certificate of Incorporation, the General Corporation Law of the State of Delaware or any other applicable law, the provision of these By-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

#### **ARTICLE 7 - AMENDMENTS**

These By-Laws may be altered, amended or repealed or new By-Laws may be adopted by (a) the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present or (b) by the affirmative vote of the holders of a majority of the shares of the capital stock of the Corporation issued and outstanding.

**Second 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 -

**EXPORT DEVELOPMENT CANADA**

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 7, 2008

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## TABLE OF CONTENTS

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

---

1.43	“Collateral”	10
1.44	“Combined Eligible Accounts”	10
1.45	“Control”	10
1.46	“Debt Offering”	10
1.47	“Default”	10
1.48	“Deposit Account Control Agreement”	10
1.49	“EBITDA”	10
1.50	“EDC”	11
1.51	“Eligible Accounts”	11
1.52	“Eligible Inventory”	13
1.53	“Eligible WIP Inventory”	14
1.54	“Enforcement Action”	14
1.55	“Environmental Laws”	14
1.56	“Equipment”	15
1.57	“Equity Offering”	15
1.58	“Equivalent Amount”	15
1.59	“ERISA”	15
1.60	“ERISA Affiliate”	15
1.61	“ERISA Event”	16
1.62	“Excess Cash Flow”	16
1.63	“Existing Security”	16
1.64	“Existing Security Agreements”	17
1.65	“Event of Default”	17
1.66	“Financing Agreements”	17
1.67	“Fixed Charge Coverage Ratio”	17
1.68	“Fixed Charges”	17
1.69	“Full Control Notice”	17
1.70	“GAAP”	17
1.71	“General Security Agreement”	18
1.72	“Hazardous Materials”	18
1.73	“Hedge Agreement”	18
1.74	“Hedging Liabilities”	18
1.75	“HTM”	18
1.76	“Inactive Subsidiaries”	19
1.77	“Information Certificate”	19
1.78	“Interest Expense”	19
1.79	“Interest Payment Date”	19
1.80	“Interest Period”	19
1.81	“Interest Rate”	19
1.82	“Inventory”	20
1.83	“ISDA”	20
1.84	“Junior Participation”	20
1.85	“Leased Real Property”	20
1.86	“Letter of Credit Accommodations”	20
1.87	“Libor Rate”	20
1.88	“Libor Rate Loan”	21

1.89	“Lien”	21
1.90	“Loans”	21
1.91	“Major Customer”	21
1.92	“Major Customer Designated Facilities”	21
1.93	“Mark to Market Exposure”	21
1.94	“Material Adverse Effect”	22
1.95	“Maturity Date”	22
1.96	“Measurement Date”	22
1.97	“Mexican Negative Pledge Agreement”	22
1.98	“Mexican Obligor Collateral”	22
1.99	“Mexican Obligors”	22
1.100	“Mexican Security Documents”	23
1.101	“Mexican Undertaking”	23
1.102	“Moody’s”	23
1.103	“Multiemployer Plan”	23
1.104	“Net Amount of Eligible Accounts”	23
1.105	“Obligations”	23
1.106	“Obligor”	24
1.107	“Officer’s Compliance Certificate”	24
1.108	“Original US Loan Agreement”	24
1.109	“Payment Account”	24
1.110	“PBGC”	24
1.111	“Pension Plans”	24
1.112	“Person” or “person”	24
1.113	“PPSA”	24
1.114	“Priority Event”	25
1.115	“Priority Payables Reserve”	25
1.116	“Prime Rate”	25
1.117	“Real Property”	25
1.118	“Records”	26
1.119	“Reference Rate”	26
1.120	“Reference Rate Loans”	26
1.121	“Register”	26
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”	27
1.127	“Revolving Lender”	27
1.128	“Revolving Loan Priority Collateral”	27
1.129	“Revolving Loans”	27
1.130	“S&P”	27
1.131	“SMTC Corporation”	27
1.132	“SMTC Mex Holdings”	27
1.133	“SMTC Mex Holdings Inventory”	27
1.134	“Solvent”	27

1.135	“Special Agent Advances”	28
1.136	“Special Tranche B Agent Advances”	28
1.137	“Spot Rate”	28
1.138	“Subsidiaries”	28
1.139	“Total Debt”	28
1.140	“Total Excess Availability”	28
1.141	“Total Leverage Ratio”	29
1.142	“Tranche B Agent”	29
1.143	“Tranche B Lenders”	29
1.144	“Tranche B Loan”	29
1.145	“Tranche B Loan Action Default”	29
1.146	“Tranche B Loan Action Default Notice”	29
1.147	“Tranche B Loan Interest Rate”	29
1.148	“Tranche B Loan Fee Letter”	30
1.149	“Tranche B Loan Priority Collateral”	30
1.150	“Transferee”	30
1.151	“UCC”	30
1.152	“US”	30
1.153	“US Borrowers”	30
1.154	“US Dollar Amount”	30
1.155	“US Excess Availability”	31
1.156	“US Lenders”	31
1.157	“US Reference Bank”	31
1.158	“US Revolving Maximum Credit”	31
1.159	“US Tax Code”	31
1.160	“Value”	31
1.161	“Wachovia”	31
1.162	“WARN”	31
<b>SECTION 2. CREDIT FACILITIES</b>		<b>32</b>
2.1	Revolving Loans	32
2.2	Letter of Credit Accommodations	32
2.3	Tranche B Loan	36
2.4	Availability Reserves	39
2.5	Taxes	39
2.6	Hedge Agreements	40
<b>SECTION 3. INTEREST AND FEES</b>		<b>41</b>
3.1	Interest	41
3.2	Closing Fee	43
3.3	Intentionally Deleted	43
3.4	Intentionally Deleted	43
3.5	Intentionally Deleted	43
3.6	Increased Costs and Changes in Law	43

<b>SECTION 4. CONDITIONS PRECEDENT</b>	<b>45</b>
4.1 Intentionally Deleted	45
4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations	45
<b>SECTION 5. COLLECTION AND ADMINISTRATION</b>	<b>46</b>
5.1 US Borrowers' Loan Account	46
5.2 Statements	46
5.3 Collection of Accounts	46
5.4 Payments	48
5.5 Authorization to Make Loans and Letter of Credit Accommodations	53
5.6 Use of Proceeds	54
5.7 Obligations Several; Independent Nature of US Lenders' Rights	54
<b>SECTION 6. COLLATERAL REPORTING AND COVENANTS</b>	<b>54</b>
6.1 Collateral Reporting	54
6.2 Accounts Covenants	55
6.3 Inventory Covenants	57
6.4 Equipment Covenants	58
6.5 Power of Attorney	58
6.6 Right to Cure	59
6.7 Access to Premises	59
<b>SECTION 7. REPRESENTATIONS AND WARRANTIES</b>	<b>60</b>
7.1 Corporate Existence, Power and Authority; Subsidiaries	60
7.2 Financial Statements; No Material Adverse Change	60
7.3 Name; State of Organization; Chief Executive Office; Collateral Locations	60
7.4 Priority of Liens; Title to Properties	61
7.5 Tax Returns	61
7.6 Litigation	62
7.7 Compliance with Other Agreements and Applicable Laws	62
7.8 Bank Accounts	62
7.9 Accuracy and Completeness of Information	62
7.10 Status of Pension Plans	63
7.11 Environmental Compliance	64
7.12 U.S. Legislation	65
7.13 Intellectual Property	65
7.14 Subsidiaries; Affiliates; Capitalization; Solvency	66
7.15 Survival of Warranties; Cumulative	66
7.16 Inactive Subsidiaries	66
7.17 Labour Disputes	67
7.18 Interrelated Business	67
<b>SECTION 8. AFFIRMATIVE AND NEGATIVE COVENANTS</b>	<b>68</b>
8.1 Maintenance of Existence	68
8.2 New Collateral Locations	68

8.3	Compliance with Laws, Regulations, Etc.	68
8.4	Payment of Taxes and Claims	69
8.5	Insurance	70
8.6	Financial Statements and Other Information	70
8.7	Sale of Assets, Consolidation, Amalgamation, Dissolution, Merger, Etc.	73
8.8	Encumbrances	73
8.9	Indebtedness	74
8.10	Loans, Investments, Guarantees, Etc.	74
8.11	Dividends and Redemptions	75
8.12	Transactions with Affiliates	75
8.13	Intellectual Property	76
8.14	Additional Bank Accounts	76
8.15	Operation of Pension Plans	76
8.16	Costs and Expenses	77
8.17	Further Assurances	78
8.18	EBITDA	79
8.19	Inactive Subsidiaries	79
8.20	End of Fiscal Years; Fiscal Quarters	79
8.21	Change in Business	80
8.22	Fixed Charge Coverage Ratio	80
8.23	Maximum Total Debt	81
8.24	Maximum Capital Expenditures	82
8.25	After Acquired Real Property	83
<b>SECTION 9. EVENTS OF DEFAULT AND REMEDIES</b>		<b>83</b>
9.1	Events of Default	83
9.2	Remedies	85
<b>SECTION 10. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW</b>		<b>93</b>
10.1	Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver	93
10.2	Waiver of Notices	95
10.3	Amendments and Waivers	95
10.4	Waiver of Counterclaim	96
10.5	Indemnification	96
<b>SECTION 11. TERM OF AGREEMENT; MISCELLANEOUS</b>		<b>97</b>
11.1	Term	97
11.2	Notices	97
11.3	Partial Invalidity	98
11.4	Successors and Assignment	98
11.5	Entire Agreement	100
11.6	Headings	100
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	102
11.12	Revolving Lender Purchase Option	104
11.13	Competing Purchase Options	105
11.14	Canadian Obligation Purchase Requirement	106
<b>SECTION 12. THE AGENT AND THE TRANCHE B AGENT</b>		<b>106</b>
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	107
12.5	Indemnification	108
12.6	Non-Reliance on Agent, Tranche B Agent and Other Lenders	108
12.7	Failure to Act	109
12.8	Concerning the Collateral and the Related Financing Agreements	109
12.9	Field Audit, Examination Reports and other Information; Disclaimer by Lenders	109
12.10	Collateral Matters	110
12.11	Agency for Perfection	111
12.12	Successor Agent and Tranche B Agent	112
12.13	Existing Security held for Obligations	113
<b>SECTION 13. ACKNOWLEDGEMENT AND RESTATEMENT</b>		<b>113</b>
13.1	Existing Obligations	113
13.2	Acknowledgment of Security Interests	113
13.3	Amended and Restated US Loan Agreement	113
13.4	Restatement	114

---

**INDEX TO  
EXHIBITS AND SCHEDULES**

Exhibit A	Information Certificates
<u>Schedule 1.11</u>	Form of Borrowing Base Certificate
<u>Schedule 1.51(f)</u>	Form of Billing Authorization Letter re: Accounts
<u>Schedule 1.51(g)</u>	Form of No-Offset Agreement re: Accounts
<u>Schedule 1.52</u>	Form of Inventory Purchase Agreement
<u>Schedule 1.64</u>	Description of Existing Security Agreements
<u>Schedule 1.92</u>	Major Customer Designated Facilities
<u>Schedule 1.100</u>	Mexican Security Documents
<u>Schedule 2.3(b)(i)</u>	Tranche B Loan Amortization Schedule
<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

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**SECOND AMENDED AND RESTATED US LOAN AGREEMENT**

This Second Amended and Restated US Loan Agreement dated August 7, 2008 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**"), Export Development Canada ("**EDC**"), 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, Revolving Lender, Agent and Monroe Capital Management Advisors LLC ("**Monroe**"), as Tranche B Lender and Tranche B Agent, amended and restated the Original US Loan Agreement pursuant to an Amended and Restated US Loan Agreement dated August 3, 2007 (the "**Amended and Restated US Loan Agreement**") pursuant to which Revolving Lender and Tranche B Lender have made and may make loans and provide other financial accommodations to US Borrowers;

**WHEREAS** Monroe assigned all of its rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral (as Tranche B Lender) to each of MC Funding USTRS II, LLC ("**MC II**") and MC Funding USTRS, LLC ("**MC**") pursuant to assignment agreements dated August 10, 2007;

**WHEREAS** MC II and MC assigned all of their respective rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral (as Tranche B Lenders) to Garrison Funding 2008-1 Ltd. ("**Garrison**") pursuant to assignment agreements dated June 2, 2008;

**WHEREAS** Garrison has assigned all of its rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral to EDC pursuant to an assignment agreement dated as of the date hereof;

---

**WHEREAS** Monroe has resigned as Tranche B Agent and the parties hereto have appointed EDC to act as Tranche B Agent under this Agreement pursuant to a resignation and appointment agreement dated as of the date hereof;

**WHEREAS** EDC is willing to become a Tranche B Lender and Tranche B Agent under this Agreement and the other parties hereto are willing to amend and restate the Amended and Restated US Loan Agreement 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.

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## 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 (1/16<sup>th</sup>) 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.

## 1.3 “Agent”

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

## 1.4 “Amended and Restated US Loan Agreement”

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

## 1.5 “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 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 2.00x	3.50%	2.25%
Level II	Less than 2.00x but greater than or equal to 1.50x	3.00%	1.75%
Level III	Less than 1.50x	2.50%	1.25%

**1.6 “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.

**1.7 “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.

**1.8 “Bankruptcy Code”**

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

**1.9 “Blocked Accounts”**

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

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### 1.10 “Borrowing Base”

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

(a) ninety (90%) percent (less the trailing three (3) month average dilution with respect to Eligible Accounts (based on the ratio of (1) the aggregate amount of reductions in Eligible Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) expressed as a percentage and calculated to the nearest one-tenth of one (0.1%) percent by Agent in its sole discretion on the first Business Day of each month) 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, plus

(c) the least of: (1) thirty-two (32%) percent of the Value of Eligible WIP Inventory; or (2) eighty-five (85%) percent of the appraised value of the Eligible WIP 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 (3) US\$2,500,00; provided that:

- (i) the Borrowing Base on the Closing Date shall not include any Eligible WIP Inventory based on this lending formula and no advance of a Revolving Loan based on this lending formula with respect to Eligible WIP Inventory shall be made on the Closing Date;
  - (ii) the Borrowing Base shall not include any Eligible WIP Inventory based on this lending formula and no advance of a Revolving Loan based on this lending formula with respect to Eligible WIP Inventory shall be made until Agent receives an appraisal as to the Eligible WIP Inventory in form, scope and methodology acceptable to Agent in its sole discretion and by an appraiser acceptable to Agent in its sole discretion, addressed to Agent or upon which Agent is expressly permitted to rely; and
  - (iii) the percentages in paragraph (c)(1) and (2) above and the US Dollar Amount in paragraph (c)(3) above shall be reduced by twenty-five (25%) percent on the first day of the third (3<sup>rd</sup>) month following the date of inclusion of Eligible WIP Inventory in the Borrowing Base in accordance with paragraph (c)(ii) above and a further twenty-five (25%) percent on the first day of every three (3) months thereafter until reduced to zero; minus
- (d) any Availability Reserves.

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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.

**1.11 “Borrowing Base Certificate”**

“**Borrowing Base Certificate**” shall mean a certificate executed by each US Borrower, in substantially the form attached hereto as Schedule 1.11, setting forth the Revolving Loans available to US Borrowers.

**1.12 “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.

**1.13 “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.

**1.14 “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.

**1.15 “Canadian Availability Reserves”**

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

**1.16 “Canadian Borrower”**

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

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**1.17 “Canadian Borrowing Base”**

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

**1.18 “Canadian Eligible Accounts”**

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

**1.19 “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.

**1.20 “Canadian Financing Agreements”**

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

**1.21 “Canadian Hedge Agreements”**

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

**1.22 “Canadian Hedging Liabilities”**

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

**1.23 “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.

**1.24 “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.

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**1.25 “Canadian Loan Agreement”**

“Canadian Loan Agreement” shall mean the Second Amended and Restated Canadian Loan Agreement dated the date hereof 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.

**1.26 “Canadian Loans”**

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

**1.27 “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.

**1.28 “Canadian Obligations”**

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

**1.29 “Canadian Priority Event”**

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

**1.30 “Canadian Revolving Lender”**

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

**1.31 “Canadian Revolving Loans”**

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

**1.32 “Canadian Revolving Maximum Credit”**

“Canadian Revolving Maximum Credit” shall mean US\$45,000,000 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\$45,000,000.

**1.33 “Canadian Special Agent Advances”**

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

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**1.34 “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.

**1.35 “Canadian Term Loan”**

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

**1.36 “Canadian Tranche B Agent”**

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

**1.37 “Canadian Tranche B Loan”**

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

**1.38 “Canadian Tranche B Lenders”**

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

**1.39 “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.

**1.40 “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.

**1.41 “CCAA”**

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

**1.42 “Closing Date”**

“Closing Date” shall mean August 7, 2008 or such later date as the conditions precedent to effectiveness hereof are satisfied in the sole discretion of Agent and Tranche B Agent.

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**1.43 “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.

**1.44 “Combined Eligible Accounts”**

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

**1.45 “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.

**1.46 “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.

**1.47 “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.

**1.48 “Deposit Account Control Agreement”**

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

**1.49 “EBITDA”**

“**EBITDA**” shall mean, as to any Person, with respect to any period, an amount equal to the net income of such Person for such period determined in accordance with GAAP, plus or minus, to the extent deducted or added in determining such net income for such period, without duplication:

- (i) depreciation, amortization and other non-cash charges (including mark to market adjustments for deferred stock units);

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- (ii) interest expenses;
  - (iii) the provision of taxes for such period; and
  - (iv) cash restructuring charges, extraordinary gains or losses and other one-time cash charges as agreed to in writing by Agent (provided that up to US\$1,000,000 of such cash restructuring and other one-time cash charges per fiscal year of SMTC Corporation do not need to be agreed to in writing by Agent provided same are disclosed on the quarterly and/or annual financial statements reviewed by external auditors). Any cash restructuring charges set out in the June 2008 projections provided by US Borrowers to Agent in June 2008 shall be deemed to be cash restructuring charges agreed to in writing by Agent for purposes of this paragraph (iv).

**1.50 “EDC”**

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

**1.51 “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

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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 1.51(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 1.51(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;

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(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:

- (i) except as provided in sub-paragraph (ii) below, a single account debtor or its affiliates do not constitute more than twenty-five (25%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such twenty-five (25%) percent threshold may be deemed Eligible Accounts; and
- (ii) Ingenico SA or its affiliates and Harris Corporation and its affiliates do not constitute more than thirty-five (35%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such thirty-five (35%) 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.

#### **1.52 "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

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Designated Facilities, Agent shall have received, in writing, inventory purchase agreements (each, a “**Inventory Purchase Agreement**”), in substantially the form attached as Schedule 1.52 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; (l) subject to paragraph (e)(A) immediately above, Inventory located outside of the US including Inventory located in Chihuahua, Mexico and (m) STMC Mex Holdings Inventory or any Inventory over which Tranche B Agent or Tranche B Lender has or could have a prior interest ahead of Agent or Revolving Lender.

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.

**1.53 “Eligible WIP Inventory”**

“**Eligible WIP Inventory**” shall mean Inventory that is excluded from the definition of Eligible Inventory by reason only of being work-in-process including components which are not part of finished goods and which are acceptable to Agent. General criteria for Eligible WIP Inventory may be established and revised from time to time by Agent. Any Inventory which is not Eligible WIP Inventory shall nevertheless be part of the Collateral.

**1.54 “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.

**1.55 “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

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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.

**1.56 “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.

**1.57 “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.

**1.58 “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).

**1.59 “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.

**1.60 “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.

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**1.61 “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.

**1.62 “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.

**1.63 “Existing Security”**

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

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**1.64 “Existing Security Agreements”**

“Existing Security Agreements” shall mean the security agreements described on Schedule 1.64 hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.65 “Event of Default”**

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

**1.66 “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.

**1.67 “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.

**1.68 “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.

**1.69 “Full Control Notice”**

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

**1.70 “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.

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**1.71 “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.

**1.72 “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).

**1.73 “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.

**1.74 “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.

**1.75 “HTM”**

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

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**1.76 “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.

**1.77 “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.

**1.78 “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.

**1.79 “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.

**1.80 “Interest Period”**

“**Interest Period**” shall mean a period, the first being the period from and including the Closing Date to and including September 2, 2008 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.

**1.81 “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

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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.

**1.82 "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.

**1.83 "ISDA"**

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

**1.84 "Junior Participation"**

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

**1.85 "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.

**1.86 "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.

**1.87 "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

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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.

**1.88 “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.

**1.89 “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.

**1.90 “Loans”**

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

**1.91 “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.

**1.92 “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 1.92.

**1.93 “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.

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**1.94 “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.

**1.95 “Maturity Date”**

“**Maturity Date**” shall mean the date which is the earlier to occur of (i) August 12, 2012 and (ii) the termination of this Agreement pursuant to the terms hereof.

**1.96 “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.

**1.97 “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.

**1.98 “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, (b) inventory, real estate, machinery, equipment, shares and leasehold improvements owned by SMTC Mex Holdings located in Mexico (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of its business before the occurrence of a Priority Event) and (c) inventory owned by SMTC Mex Holdings located in China (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of 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.

**1.99 “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.

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**1.100 “Mexican Security Documents”**

“**Mexican Security Documents**” shall mean the security documents set forth on Schedule 1.100 attached hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.101 “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.

**1.102 “Moody’s”**

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

**1.103 “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.

**1.104 “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.

**1.105 “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.

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**1.106 “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.

**1.107 “Officer’s Compliance Certificate”**

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

**1.108 “Original US Loan Agreement”**

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

**1.109 “Payment Account”**

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

**1.110 “PBGC”**

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

**1.111 “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.

**1.112 “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.

**1.113 “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.

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**1.114 “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.

**1.115 “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.

**1.116 “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.

**1.117 “Real Property”**

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

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**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.

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**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, real and personal, of US Borrowers and each Obligor including the Accounts and Inventory but excluding (a) the Mexican Obligor Collateral, (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of business before the occurrence of a Priority Event) and (c) the Equipment of US Borrowers located in the United States of America and Mexico.

**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 “SMTC Mex Holdings”**

“SMTC Mex Holdings” shall mean SMTC Mex Holdings, Inc.

**1.133 “SMTC Mex Holdings Inventory”**

“SMTC Mex Holdings Inventory” shall mean SMTC Mex Holdings’ now owned or hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, located in Mexico or China.

**1.134 “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

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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).

**1.135 “Special Agent Advances”**

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

**1.136 “Special Tranche B Agent Advances”**

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

**1.137 “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.

**1.138 “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.

**1.139 “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.

**1.140 “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.

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**1.141 “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.

**1.142 “Tranche B Agent”**

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

**1.143 “Tranche B Lenders”**

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

**1.144 “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.

**1.145 “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 is 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.

**1.146 “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.

**1.147 “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).

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**1.148 “Tranche B Loan Fee Letter”**

“**Tranche B Loan Fee Letter**” shall mean the fee letter dated August 3, 2007 between US Borrowers and Tranche B Agent, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.149 “Tranche B Loan Priority Collateral”**

“**Tranche B Loan Priority Collateral**” shall mean (a) the Mexican Obligor Collateral, (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of business before the occurrence of a Priority Event) and (c) the Equipment of US Borrowers located in the United States of America and Mexico.

**1.150 “Transferee”**

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

**1.151 “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.

**1.152 “US”**

“**US**” shall mean the United States of America.

**1.153 “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.

**1.154 “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.

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**1.155 “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.

**1.156 “US Lenders”**

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

**1.157 “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.

**1.158 “US Revolving Maximum Credit”**

“US Revolving Maximum Credit” shall mean US\$45,000,000 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\$45,000,000.

**1.159 “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.

**1.160 “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.

**1.161 “Wachovia”**

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

**1.162 “WARN”**

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

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## **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

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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

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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 1.10 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,

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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.

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(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 (other than SMTC Manufacturing Corporation of California) in US Dollars on the Closing Date in the original principal amount of US\$13,000,000. US Borrowers agree that at no time shall any of the proceeds of the Tranche B Loan be advanced, loaned or provided to SMTC Manufacturing Corporation of California.

(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 in the amounts and on the dates set out on Schedule 2.3(b)(i) hereto 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)(iii), 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

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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 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.

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- (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.

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(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.

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(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.

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(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

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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

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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 Closing Fee**

US Borrowers shall pay to Tranche B Agent, for the benefit of Tranche B Lender, as a closing fee the amount of US\$65,000, which closing fee shall be fully earned as of and payable on the Closing Date.

### **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

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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.

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(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 Intentionally Deleted**

##### **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.

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## **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.

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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

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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 SMTC Mex Holdings Inventory 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;

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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 arising from the sale of SMTC Mex Holdings Inventory 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;

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- (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;
  - (K) eleventh, to the *pro rata* payment in full of all Canadian Obligations due in respect of the Canadian Revolving Loans, Canadian Term Loan, 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 Canadian 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. A Tranche B Lender may elect not to receive any payments pursuant to clauses (G), (H), (I) and (J) above by notice in writing to Agent and therefore not be required to purchase the Junior Participation. If such Tranche B Lender so elects, any payment received by such Tranche B Lender 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 shall be returned immediately to Agent for payment under clause (K) above and the payment priority of clauses (G), (H), (I) and (J) above shall thereafter be deemed inserted immediately below clause (K) above.

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- (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 arising from the sale of SMTC Mex Holdings Inventory 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 SMTC Mex Holdings Inventory 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;

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- (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 Canadian 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 Canadian Obligations due in respect of the Canadian Revolving Loan, Canadian Term 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 Lenders 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 Agreements, a junior participation interest in Canadian Tranche B Lenders' Canadian 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. Revolving Lender may elect not to receive any payments pursuant to clauses (G), (H), (I) and (J) above by notice in writing to Agent and therefore not be required to purchase the Junior Participation. If Revolving Lender so elects, any payment received by Revolving Lender pursuant to clauses (G), (H), (I) and (J) above at a time when any of the Canadian Obligations owing to Canadian Tranche B Lenders under the Canadian Financing Agreements remain outstanding shall be returned immediately to Agent for payment under clause (K) above and the payment priority of clauses (G), (H), (I) and (J) above shall thereafter be deemed inserted immediately below clause (K) above.

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(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.

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**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

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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 Obligor 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.

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(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

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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.

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#### **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; (f) each US Borrower assumes all responsibility and liability arising from the use of the Equipment; and (g) each US Borrower shall, at its expense, at any time or times as Agent may request on or after an Event of Default has occurred and is continuing, deliver or cause to be delivered to Agent and Tranche B Agent written reports and appraisals as to the Equipment 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.

#### **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

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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.

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## **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.

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(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.

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## 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.

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## 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.

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(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) of 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.

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(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

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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.

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## 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.

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## **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,

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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.

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## **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;

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- (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;
- (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

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(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.

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**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).

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## 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; (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

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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; (e) loans, advances, investments, purchases, repurchases, guarantees, assumptions, endorsements or responsibilities up to US\$250,000 (less any amount used by Canadian Borrower in accordance with Section 8.10(e) of the Canadian Loan Agreement) in the aggregate per fiscal year of SMTC Corporation provided that (i) prior to any such action Total Excess Availability is greater than US\$3,000,000 immediately after giving effect to such action or the average Total Excess Availability is greater than US\$3,000,000 for the fifteen (15) days immediately preceding such action and (ii) any unused portion of such US\$250,000 permitted amount may not be carried over to the next succeeding fiscal year of SMTC Corporation; and (f) Agent, Tranche B Agent and US Lenders acknowledge that SMTC Corporation and its indirect subsidiary SMTC Asia Limited propose to enter into a joint venture agreement (a draft of which has been provided to Agent and marked "Draft (7): July 7, 2008") with Alco Holdings Limited and its indirect subsidiary Commusonic Industries Limited pursuant to which the parties thereto will agree to jointly pursue the formation of a company to be located in Hong Kong and named SMTC Alco Limited with its objective being to establish and operate a manufacturing facility in Chang An, Guangdong Province, People's Republic of China and US Borrowers agree to cause SMTC Asia Limited to provide Agent with such guarantees, and first-ranking security over its property as Agent may request, together with applicable certificates, resolutions and opinions related thereto, all in form and substance satisfactory to Agent in its sole discretion.

#### **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.

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### **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 (From 5500 Series) with respect to each Pension Plan and Multiemployer Plan, (iv) promptly and in any event within ten (10) days

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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

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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\$ 8,500,000
September 2008	US\$ 8,500,000
December 2008	US\$ 8,500,000
March 2009	US\$ 8,500,000
June 2009	US\$ 10,000,000
September 2009	US\$ 10,000,000
December 2009	US\$ 11,000,000
March 2010	US\$ 12,000,000
June 2010	US\$ 12,000,000
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	1.00
September 2008	1.00
December 2008	1.00
March 2009	1.00
June 2009	1.10
September 2009	1.10
December 2009	1.20
March 2010	1.20
June 2010	1.20
September 2010	1.20
December 2010	1.20
March 2011	1.20
June 2011	1.20
September 2011	1.20
December 2011	1.20
March 2012	1.20
Thereafter	1.20

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 in the table below 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
September 2008	3.50x
December 2008	3.50x
March 2009	3.50x
June 2009	3.30x
September 2009	3.30x
December 2009	3.00x
March 2010	3.00x
June 2010	3.00x
September 2010	3.00x
December 2010	3.00x
March 2011	3.00x
June 2011	3.00x
September 2011	3.00x
December 2011	3.00x
March 2012	3.00x
June 2012	3.00x

For purposes of calculating the Maximum Total Debt covenant, the following amounts of EBITDA 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

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.

<u>End of Fiscal Year</u>	<u>Maximum Capital Expenditure for Fiscal Year</u>
December 2007	US\$ 4,000,000
December 2008	US\$ 3,000,000
December 2009	US\$ 4,000,000
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:

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

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## 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;

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(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;

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(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

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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

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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

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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:

- (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

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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.

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(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

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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

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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.

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## 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.

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(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.

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## **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.

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### 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 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 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).

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(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

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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.

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## 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.

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## 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);

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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 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 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. (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 Obligor in accordance with the terms hereof and the other Financing Agreements.

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(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
- (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.

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**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 EDC 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.

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## 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 EDC and any successor acting as Agent or Tranche B Agent, as the case may be, so long as Wachovia or EDC, 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 EDC, as the case may be, in its individual capacity as US Lender hereunder. Each of

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Wachovia and EDC (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 EDC 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

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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**”);

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(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,

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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.

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## 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.

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**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, Revolving Lender, Tranche B Agent and Tranche B Lender for outstanding loans and advances to US Borrowers under the Amended and Restated 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, Revolving Lender, Tranche B Agent and Tranche B Lender to the extent set forth in the Amended and Restated 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, the Amended and Restated 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, the Amended and Restated US Loan Agreement, Existing Security Agreements, this Agreement or any of the other Financing Agreements.

**13.3 Amended and Restated US Loan Agreement**

US Borrowers hereby acknowledge, confirm and agree that, subject to Section 13.4 hereof: (a) the Amended and Restated 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 and the Amended and Restated US Loan Agreement constitute the legal, valid and binding obligations of US Borrowers, enforceable against US Borrowers in accordance with

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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 and the Amended and Restated 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 Amended and Restated 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, Tranche B 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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.

**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

**WACHOVIA CAPITAL FINANCE CORPORATION  
(CENTRAL)**

By: /s/ Niall Hamilton  
Name: Niall Hamilton  
Title: Senior Vice President

Address:

150 South Wacker Drive  
Chicago, Illinois 60606

Attention: Mr. Niall Hamilton  
Senior Vice President

Fax: (312) 332-0424 and  
(416) 364-8165

US BORROWER

**SMTC MANUFACTURING  
CORPORATION OF CALIFORNIA**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

Address:

2302 Trade Zone Boulevard  
San Jose, California  
USA 95131

Attention: Jane Todd  
Chief Financial Officer

Fax No: (408) 934-7101

TRANCHE B LENDER AND TRANCHE B AGENT

**EXPORT DEVELOPMENT CANADA**

By: /s/ Lorraine Audsley  
Name: Lorraine Audsley  
Title: Director, ICT Financing

By: /s/ Louise Gagnon  
Name: Louise Gagnon  
Title: Chief Financial Officer

Address:

151 O'Connor Street  
Ottawa, Ontario K1A 1K3

Attention: Loan Services

Fax: (613) 598-2514

US BORROWER

**SMTC MANUFACTURING CORPORATION OF  
MASSACHUSETTS**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

Address:

109 Constitution Blvd.  
Unit 160  
Franklin, Massachusetts USA

Attention: Jane Todd  
Chief Financial Officer

Fax No: (508) 520-9351

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US BORROWER

**SMTC MEX HOLDINGS, INC.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

Address:

635 Hood Road  
Markham, Ontario  
Canada, L3R 4N6

Attention: Jane Todd  
Chief Financial Officer  
Fax No: (905) 479-5326

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Each of the undersigned Obligor hereby:

- (a) acknowledges, confirms and agrees that such Obligor's Financing Agreements (as each of the same may have been amended, modified, supplemented, extended, renewed, restated or replaced) remain in full force and effect as at the date hereof in respect of the Obligations under this Agreement;
- (b) acknowledges and confirms that such Obligor has received a copy of the Original US Loan Agreement, the Amended and Restated US Loan Agreement and this Agreement and understands the terms thereof;
- (c) acknowledges and confirms that the representations and warranties set forth in the Financing Agreements to which it is a party continue to be true and correct as of the date hereof; and
- (d) acknowledges and confirms that it is in compliance with the covenants set forth in the Financing Agreements to which it is a party as of the date hereof.

Dated August 7, 2008.

**SMTC CORPORATION**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**HTM HOLDINGS, INC.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC HOLDINGS, LLC.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**RADIO COMPONENTES DE MEXICO, S.A. DE C.V.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

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**SMTC DE CHIHUAHUA, S.A. DE C.V.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**Second 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 -

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

as Canadian Borrower

Dated: August 7, 2008

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## TABLE OF CONTENTS

	<u>Page No.</u>
<b>SECTION 1 DEFINITIONS</b>	<b>2</b>
1.1 "Accounts"	2
1.2 "Adjusted Libor Rate"	2
1.3 "Agent"	3
1.4 "Amended and Restated Canadian Loan Agreement"	3
1.5 "Applicable Margin"	3
1.6 "Approved Fund"	4
1.7 "Availability Reserves"	4
1.8 "BIA"	5
1.9 "Blocked Accounts"	5
1.10 "Borrowing Base"	5
1.11 "Borrowing Base Certificate"	6
1.12 "Business Day"	6
1.13 "Canadian Borrower"	6
1.14 "Canadian Dollar Amount"	6
1.15 "Canadian Excess Availability"	7
1.16 "Canadian Lenders"	7
1.17 "Canadian Prime Rate"	7
1.18 "Canadian Prime Rate Loans"	7
1.19 "Canadian Reference Bank"	7
1.20 "Canadian Revolving Maximum Credit"	7
1.21 "Capital Expenditures"	7
1.22 "Capital Lease"	8
1.23 "CCAA"	8
1.24 "CDOR Rate"	8
1.25 "Change in Law"	8
1.26 "Closing Date"	8
1.27 "Collateral"	8
1.28 "Combined Eligible Accounts"	8
1.29 "Control"	9
1.30 "Debt Offering"	9
1.31 "Default"	9
1.32 "Deposit Account Control Agreement"	9
1.33 "EBITDA"	9
1.34 "Eligible Accounts"	10

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
1.35	12
1.36	12
1.37	13
1.38	13
1.39	13
1.40	14
1.41	14
1.42	14
1.43	14
1.44	14
1.45	15
1.46	15
1.47	15
1.48	15
1.49	15
1.50	15
1.51	15
1.52	16
1.53	16
1.54	16
1.55	16
1.56	16
1.57	17
1.58	17
1.59	17
1.60	17
1.61	17
1.62	17
1.63	18
1.64	18
1.65	18
1.66	18
1.67	18
1.68	18
1.69	19
1.70	19
1.71	19
1.72	19

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
1.73	19
1.74	19
1.75	20
1.76	20
1.77	20
1.78	20
1.79	20
1.80	20
1.81	21
1.82	21
1.83	21
1.84	21
1.85	21
1.86	21
1.87	21
1.88	22
1.89	22
1.90	22
1.91	22
1.92	22
1.93	22
1.94	22
1.95	23
1.96	23
1.97	23
1.98	23
1.99	24
1.100	24
1.101	24
1.102	24
1.103	24
1.104	24
1.105	24
1.106	24
1.107	24
1.108	25
1.109	25
1.110	25

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>	
1.111	“SMTC Corporation”	25
1.112	“SMTC Mex Holdings”	25
1.113	“SMTC Mex Holdings Inventory”	25
1.114	“Solvent”	25
1.115	“Special Agent Advances”	26
1.116	“Special Tranche B Agent Advances”	26
1.117	“Spot Rate”	26
1.118	“Subsidiaries”	26
1.119	“Term Loan”	26
1.120	“Total Debt”	26
1.121	“Total Excess Availability”	26
1.122	“Total Leverage Ratio”	27
1.123	“Tranche B Agent”	27
1.124	“Tranche B Lenders”	27
1.125	“Tranche B Loan”	27
1.126	“Tranche B Loan Action Default”	27
1.127	“Tranche B Loan Action Default Notice”	27
1.128	“Tranche B Loan Interest Rate”	27
1.129	“Tranche B Loan Fee Letter”	28
1.130	“Tranche B Loan Payout”	28
1.131	“Tranche B Loan Priority Collateral”	28
1.132	“US”	28
1.133	“US Advances”	28
1.134	“US Agent”	28
1.135	“US Availability Reserves”	28
1.136	“US Borrowers”	28
1.137	“US Borrowing Base”	29
1.138	“US Dollar Amount”	29
1.139	“US Eligible Accounts”	29
1.140	“US Excess Availability”	29
1.141	“US Financing Agreements”	29
1.142	“US Hedge Agreements”	29
1.143	“US Hedging Liabilities”	29
1.144	“US Lenders”	29
1.145	“US Letter of Credit Accommodations”	30
1.146	“US Loan Agreement”	30
1.147	“US Loans”	30
1.148	“US Mark to Market Exposure”	30

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
1.149 "US Obligations"	30
1.150 "US Prime Rate"	30
1.151 "US Priority Event"	30
1.152 "US Revolving Lender"	30
1.153 "US Revolving Loans"	30
1.154 "US Revolving Maximum Credit"	31
1.155 "US Tranche B Agent"	31
1.156 "US Special Agent Advances"	31
1.157 "US Special Tranche B Agent Advances"	31
1.158 "US Tranche B Loan"	31
1.159 "US Tranche B Lenders"	31
1.160 "Value"	31
1.161 "Wachovia"	31
<b>SECTION 2 CREDIT FACILITIES</b>	<b>32</b>
2.1 Revolving Loans	32
2.2 Letter of Credit Accommodations	33
2.3 Tranche B Loan	37
2.4 Availability Reserves	40
2.5 Taxes	40
2.6 Hedge Agreements	41
2.7 Term Loan	43
<b>SECTION 3 INTEREST AND FEES</b>	<b>44</b>
3.1 Interest	44
3.2 Closing Fee	46
3.3 Servicing Fee	46
3.4 Unused Line Fee	46
3.5 Commitment Fee	46
3.6 Increased Costs and Changes in Law	46
<b>SECTION 4 CONDITIONS PRECEDENT</b>	<b>49</b>
4.1 Intentionally Deleted	49
4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations	49
<b>SECTION 5 COLLECTION AND ADMINISTRATION</b>	<b>50</b>
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

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
5.7 Obligations Several; Independent Nature of Canadian Lenders' Rights	58
<b>SECTION 6 COLLATERAL REPORTING AND COVENANTS</b>	<b>58</b>
6.1 Collateral Reporting	58
6.2 Accounts Covenants	59
6.3 Inventory Covenants	61
6.4 Equipment Covenants	61
6.5 Power of Attorney	62
6.6 Right to Cure	62
6.7 Access to Premises	63
<b>SECTION 7 REPRESENTATIONS AND WARRANTIES</b>	<b>63</b>
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	65
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
<b>SECTION 8 AFFIRMATIVE AND NEGATIVE COVENANTS</b>	<b>70</b>
8.1 Maintenance of Existence	70
8.2 New Collateral Locations	70
8.3 Compliance with Laws, Regulations, Etc.	71
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.	76
8.8 Encumbrances	76
8.9 Indebtedness	76
8.10 Loans, Investments, Guarantees, Etc.	77

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
8.11 Dividends and Redemptions	78
8.12 Transactions with Affiliates	78
8.13 Intellectual Property	79
8.14 Additional Bank Accounts	79
8.15 Applications under the Companies' Creditors Arrangement Act or BIA	79
8.16 Operation of Pension Plans	79
8.17 Costs and Expenses	80
8.18 Further Assurances	80
8.19 EBITDA	81
8.20 Inactive Subsidiaries	82
8.21 End of Fiscal Years; Fiscal Quarters	82
8.22 Change in Business	82
8.23 Fixed Charge Coverage Ratio	82
8.24 Maximum Total Debt	83
8.25 Maximum Capital Expenditures	84
8.26 After Acquired Real Property	85
<b>SECTION 9 EVENTS OF DEFAULT AND REMEDIES</b>	<b>85</b>
9.1 Events of Default	85
9.2 Remedies	89
<b>SECTION 10 JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW</b>	<b>97</b>
10.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver	97
10.2 Waiver of Notices	99
10.3 Amendments and Waivers	99
10.4 Waiver of Counterclaim	100
10.5 Indemnification	100
<b>SECTION 11 TERM OF AGREEMENT; MISCELLANEOUS</b>	<b>101</b>
11.1 Term	101
11.2 Notices	101
11.3 Partial Invalidity	102
11.4 Successors and Assignment	102
11.5 Entire Agreement	105
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	109

---

**Table of Contents (cont'd.)**

	<u>Page No.</u>
11.12 Competing Purchase Options	110
11.13 US Obligation Purchase Requirement	110
11.14 Limitation on Gross Up for Withholding Tax	110
11.15 Tranche B Agent and Tranche B Lender	111
<b>SECTION 12 THE AGENT AND THE TRANCHE B AGENT</b>	<b>111</b>
12.1 Appointment, Powers and Immunities	111
12.2 Reliance By Agent and Tranche B Agent	112
12.3 Events of Default	112
12.4 Agents in their Individual Capacity	113
12.5 Indemnification	113
12.6 Non-Reliance on Agent, Tranche B Agent and Other Lenders	114
12.7 Failure to Act	114
12.8 Concerning the Collateral and the Related Financing Agreements	115
12.9 Field Audit, Examination Reports and other Information; Disclaimer by Lenders	115
12.10 Collateral Matters	115
12.11 Agency for Perfection	117
12.12 Successor Agent and Tranche B Agent	117
12.13 Existing Security held for Obligations	118
<b>SECTION 13 ACKNOWLEDGEMENT AND RESTATEMENT</b>	<b>118</b>
13.1 Existing Obligations	118
13.2 Acknowledgment of Security Interests	119
13.3 Amended and Restated Canadian Loan Agreement	119
13.4 Restatement	119

---

**INDEX TO  
EXHIBITS AND SCHEDULES**

Exhibit A	-	Information Certificate
Schedule 1.11	-	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 1.36	-	Form of Inventory Purchase Agreement
Schedule 1.45	-	Existing Security Agreements
Schedule 1.74	-	Major Customer Designated Facilities
Schedule 1.82	-	Mexican Security Documents
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

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## **SECOND AMENDED AND RESTATED CANADIAN LOAN AGREEMENT**

This Second Amended and Restated Canadian Loan Agreement dated August 7, 2008 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**"), the Tranche B Agent as may be appointed by the Tranche B Lenders, 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**").

### **W I T N E S S E T H:**

**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, Revolving Lender, Agent and Monroe Capital Management Advisors LLC ("**Monroe**"), as Tranche B Lender and Tranche B Agent, amended and restated the Original Canadian Loan Agreement pursuant to an Amended and Restated Canadian Loan Agreement dated August 3, 2007 (the "**Amended and Restated Canadian Loan Agreement**") pursuant to which Revolving Lender and Tranche B Lender have made and may make loans and provide other financial accommodations to Canadian Borrower;

**WHEREAS** Monroe assigned all of its rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral (as Tranche B Lender) to each of MC Funding USTRS II, LLC ("**MC II**") and MC Funding USTRS, LLC ("**MC**") pursuant to assignment agreements dated August 10, 2007;

**WHEREAS** MC II and MC assigned all of their respective rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral (as Tranche B Lenders) to Garrison Funding 2008-1 Ltd. ("**Garrison**") pursuant to assignment agreements dated June 2, 2008;

**WHEREAS** Canadian Borrower has paid Garrison, as Tranche B Lender, in full all Obligations owing to Garrison with respect to the Tranche B Loan and Garrison has released all its rights, title and interest in the Tranche B Loan, the Financing Agreements and the Collateral pursuant to a payout letter dated as of the date hereof (the "**Tranche B Loan Payout**");

**WHEREAS** as a result of the Tranche B Loan Payout Monroe has resigned (the "**Resignation**") as Tranche B Agent pursuant to a resignation letter dated as of the date hereof;

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**WHEREAS** as of the date hereof and as a result of the Tranche B Loan Payout and the Resignation there is no Tranche B Lender and Tranche B Agent;

**WHEREAS** Agent, Revolving Lender and Canadian Borrower are willing to amend and restate the Amended and Restated Canadian Loan Agreement 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 “**CS**” 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 (1/16<sup>th</sup>) 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.

### 1.3 “Agent”

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

### 1.4 “Amended and Restated Canadian Loan Agreement”

“**Amended and Restated Canadian Loan Agreement**” shall have the meaning set forth in the preamble to this Agreement.

### 1.5 “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 is 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 August 3, 2007 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.

<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%

#### 1.6 “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.

#### 1.7 “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.

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**1.8 “BIA”**

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

**1.9 “Blocked Accounts”**

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

**1.10 “Borrowing Base”**

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

- (a) ninety (90%) percent (less the trailing three (3) month average dilution with respect to Eligible Accounts (based on the ratio of (1) the aggregate amount of reductions in Eligible Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) expressed as a percentage and calculated to the nearest one-tenth of one (0.1%) percent by Agent in its sole discretion on the first Business Day of each month) 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, plus
- (c) the least of: (1) thirty-two (32%) percent of the Value of Eligible WIP Inventory; or (2) eighty-five (85%) percent of the appraised value of the Eligible WIP 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 (3) US\$2,500,00; provided that:
  - (i) the Borrowing Base on the Closing Date shall not include any Eligible WIP Inventory based on this lending formula and no advance of a Revolving Loan based on this lending formula with respect to Eligible WIP Inventory shall be made on the Closing Date;
  - (ii) the Borrowing Base shall not include any Eligible WIP Inventory based on this lending formula and no advance of a Revolving Loan based on this lending formula with respect to Eligible WIP Inventory shall be made until Agent receives an appraisal as to the Eligible WIP Inventory in form, scope and methodology acceptable to Agent in its sole discretion and by an appraiser acceptable to Agent in its sole discretion, addressed to Agent or upon which Agent is expressly permitted to rely; and

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(iii) the percentages in paragraph (c)(1) and (2) above and the US Dollar Amount in paragraph (c)(3) above shall be reduced by twenty-five (25%) percent on the first day of the third (3<sup>rd</sup>) month following the date of inclusion of Eligible WIP Inventory in the Borrowing Base in accordance with paragraph (c)(ii) above and a further twenty-five (25%) percent on the first day of every three (3) months thereafter until reduced to zero; minus

(d) 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.

**1.11 “Borrowing Base Certificate”**

“**Borrowing Base Certificate**” shall mean a certificate executed by Canadian Borrower, in substantially the form attached hereto as Schedule 1.11, setting forth the Revolving Loans available to Canadian Borrower.

**1.12 “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.

**1.13 “Canadian Borrower”**

“**Canadian Borrower**” shall have the meaning set forth in the preamble to this Agreement.

**1.14 “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.

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**1.15 “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.

**1.16 “Canadian Lenders”**

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

**1.17 “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.

**1.18 “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.

**1.19 “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.

**1.20 “Canadian Revolving Maximum Credit”**

“**Canadian Revolving Maximum Credit**” shall mean US\$45,000,000 minus the outstanding US Revolving Loans, US Letter of Credit Accommodations and US Mark to Market Exposure of US Borrowers under all their US 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\$45,000,000.

**1.21 “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.

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**1.22 “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.

**1.23 “CCAA”**

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

**1.24 “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.

**1.25 “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.

**1.26 “Closing Date”**

“**Closing Date**” shall mean August 7, 2008 or such later date as the conditions precedent to effectiveness hereof are satisfied in the sole discretion of Agent and Tranche B Agent.

**1.27 “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.

**1.28 “Combined Eligible Accounts”**

“**Combined Eligible Accounts**” shall mean, collectively, US Eligible Accounts and Eligible Accounts.

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**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 the net income of such Person for such period determined in accordance with GAAP, plus or minus, to the extent deducted or added in determining such net income for such period, without duplication:

- (i) depreciation, amortization and other non-cash charges (including mark to market adjustments for deferred stock units);
- (ii) interest expenses;
- (iii) the provision of taxes for such period; and
- (iv) cash restructuring charges, extraordinary gains or losses and other one-time cash charges as agreed to in writing by Agent (provided that up to US\$1,000,000 of such cash restructuring and other one-time cash charges per fiscal year

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of SMTC Corporation do not need to be agreed to in writing by Agent provided same are disclosed on the quarterly and/or annual financial statements reviewed by external auditors). Any cash restructuring charges set out in the June 2008 projections provided by US Borrowers to Agent in June 2008 shall be deemed to be cash restructuring charges agreed to in writing by Agent for purposes of this paragraph (iv).

**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:
    - (i) except as provided in sub-paragraph (ii) below, a single account debtor or its affiliates do not constitute more than twenty-five (25%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such twenty-five (25%) percent threshold may be deemed Eligible Accounts; and

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- (ii) Ingenico SA or its affiliates and Harris Corporation or its affiliates do not constitute more than thirty-five (35%) percent of all Combined Eligible Accounts; provided, however, that the portion of the Accounts not in excess of such thirty-five (35%) 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 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 Equipment”**

“**Eligible Equipment**” shall mean Equipment owned by Canadian Borrower which is acceptable to Agent based on the criteria set forth below. In general, Eligible Equipment shall not include: (a) fixtures; (b) Equipment subject to a Lien in favour of any person other than Agent except those permitted in this Agreement; (c) Equipment which is not subject to the first priority, valid and perfected Lien of Agent; (d) leased Equipment; or (e) worn-out or obsolete Equipment.

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

### **1.36 “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

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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 1.36 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.

**1.37 “Eligible WIP Inventory”**

“**Eligible WIP Inventory**” shall mean Inventory that is excluded from the definition of Eligible Inventory by reason only of being work-in-process including components which are not part of finished goods and which are acceptable to Agent. General criteria for Eligible WIP Inventory may be established and revised from time to time by Agent. Any Inventory which is not Eligible WIP Inventory shall nevertheless be part of the Collateral.

**1.38 “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.

**1.39 “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

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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.

**1.40 “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.

**1.41 “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.

**1.42 “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).

**1.43 “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 8.25) pursuant to the Financing Agreements and US Financing Agreements during such period.

**1.44 “Existing Security”**

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

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**1.45 “Existing Security Agreements”**

“Existing Security Agreements” shall mean the security agreements described on Schedule 1.45 hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.46 “Event of Default”**

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

**1.47 “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.

**1.48 “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.

**1.49 “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.

**1.50 “Full Control Notice”**

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

**1.51 “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.

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**1.52 “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.

**1.53 “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).

**1.54 “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.

**1.55 “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.

**1.56 “HTM”**

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

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**1.57 “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.

**1.58 “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.

**1.59 “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.

**1.60 “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.

**1.61 “Interest Period”**

“**Interest Period**” shall mean a period, the first being the period from and including August 3, 2007 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.

**1.62 “Interest Rate”**

“**Interest Rate**” shall mean an annual rate of interest equal to (a) the Canadian Prime Rate for Revolving Loans and other non-contingent Canadian Dollar denominated Obligations (other than the Tranche B Loan and the Term Loan), (b) the US Prime Rate for Revolving Loans and other non-contingent US Dollar denominated Obligations (other than the Tranche B Loan and the Term Loan) and (c) the US Prime Rate plus one (1%) percent per annum for the Term Loan; provided that “**Interest Rate**” shall mean an annual

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rate of interest of three (3%) percent per annum in excess of the applicable Interest Rate, 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 or the Term Loan 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.

**1.63 "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.

**1.64 "ISDA"**

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

**1.65 "ITA"**

"**ITA**" shall mean the *Income Tax Act* (Canada), as amended, supplemented, restated and superseded, in whole or in part, from time to time.

**1.66 "Junior Participation"**

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

**1.67 "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.

**1.68 "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.

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**1.69 “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.

**1.70 “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.

**1.71 “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.

**1.72 “Loans”**

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

**1.73 “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.

**1.74 “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 1.74.

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**1.75 “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.

**1.76 “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.

**1.77 “Maturity Date”**

“**Maturity Date**” shall mean the date which is the earlier to occur of (i) August 12, 2012 and (ii) the termination of this Agreement following an Event of Default pursuant to the terms hereof.

**1.78 “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.

**1.79 “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.

**1.80 “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, (b) inventory, real estate, machinery, equipment, shares and leasehold improvements owned by SMTC Mex Holdings located in Mexico (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of its business before the occurrence of a Priority Event) and (c) inventory owned by SMTC Mex Holdings located in China (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of 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.

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**1.81 “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.

**1.82 “Mexican Security Documents”**

“**Mexican Security Documents**” shall mean the security documents set forth on Schedule 1.82 attached hereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.83 “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.

**1.84 “Monroe”**

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

**1.85 “Moody’s”**

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

**1.86 “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.

**1.87 “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

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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.

**1.88 “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.

**1.89 “Officer’s Compliance Certificate”**

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

**1.90 “Original Canadian Loan Agreement”**

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

**1.91 “Payment Account”**

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

**1.92 “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.

**1.93 “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.

**1.94 “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.

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**1.95 “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 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.

**1.96 “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.

**1.97 “Real Property”**

“**Real Property**” shall mean all now owned and hereafter acquired real property of Canadian Borrower and Obligors, 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).

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**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, (b) Canadian Lenders who hold at least 50.1% of the principal amount of the Tranche B Loan and (c) Canadian Lenders who hold at least 50.1% of the principal amount of the Term 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 “Resignation”**

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

**1.107 “Revolving Lender”**

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

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**1.108 “Revolving Loan Priority Collateral”**

“**Revolving Loan Priority Collateral**” shall mean all of the undertaking, property and assets, present and future, real and personal, of Canadian Borrower and each Obligor including the Accounts and Inventory but excluding (a) the Mexican Obligor Collateral, (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of business before the occurrence of a Priority Event) and (c) the Equipment of US Borrowers located in the United States of America and Mexico.

**1.109 “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.

**1.110 “S&P”**

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

**1.111 “SMTC Corporation”**

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

**1.112 “SMTC Mex Holdings”**

“**SMTC Mex Holdings**” shall mean SMTC Mex Holdings, Inc.

**1.113 “SMTC Mex Holdings Inventory”**

“**SMTC Mex Holdings Inventory**” shall mean SMTC Mex Holdings’ now owned or hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, located in Mexico or China.

**1.114 “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).

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**1.115 “Special Agent Advances”**

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

**1.116 “Special Tranche B Agent Advances”**

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

**1.117 “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.

**1.118 “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.

**1.119 “Term Loan”**

“Term Loan” shall mean the term loan denominated in US Dollars made by Revolving Lender to Canadian Borrower as set forth in Section 2.7 hereof.

**1.120 “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.

**1.121 “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.

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**1.122 “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.

**1.123 “Tranche B Agent”**

“**Tranche B Agent**” shall mean the Person as may be appointed by the Tranche B Lenders as agent for the Tranche B Lenders together with its successors and assigns in such capacity.

**1.124 “Tranche B Lenders”**

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

**1.125 “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.

**1.126 “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 its 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, or 8.26 hereof) in each case after giving effect to all applicable cure periods, if any.

**1.127 “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.

**1.128 “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).

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**1.129 “Tranche B Loan Fee Letter”**

“**Tranche B Loan Fee Letter**” shall mean the fee letter dated August 3, 2007 between Canadian Borrower and Tranche B Agent, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

**1.130 “Tranche B Loan Payout”**

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

**1.131 “Tranche B Loan Priority Collateral”**

“**Tranche B Loan Priority Collateral**” shall mean (a) the Mexican Obligor Collateral, (b) any Accounts arising from the sale of Tranche B Loan Priority Collateral (excluding however any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory sold in the ordinary course of business before the occurrence of a Priority Event) and (c) the Equipment of US Borrowers located in the United States of America and Mexico.

**1.132 “US”**

“**US**” shall mean the United States of America.

**1.133 “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.

**1.134 “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.

**1.135 “US Availability Reserves”**

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

**1.136 “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, a Delaware corporation, and “US Borrower” shall mean any one of them individually.

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**1.137 “US Borrowing Base”**

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

**1.138 “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.

**1.139 “US Eligible Accounts”**

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

**1.140 “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.

**1.141 “US Financing Agreements”**

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

**1.142 “US Hedge Agreements”**

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

**1.143 “US Hedging Liabilities”**

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

**1.144 “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.

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**1.145 “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.

**1.146 “US Loan Agreement”**

“US Loan Agreement” shall mean the Second Amended and Restated US Loan Agreement dated the date hereof 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.

**1.147 “US Loans”**

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

**1.148 “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.

**1.149 “US Obligations”**

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

**1.150 “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.

**1.151 “US Priority Event”**

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

**1.152 “US Revolving Lender”**

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

**1.153 “US Revolving Loans”**

“US Revolving Loans” shall mean “Revolving Loans” as such term is defined in the US Loan Agreement.

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**1.154 “US Revolving Maximum Credit”**

“US Revolving Maximum Credit” shall mean US\$45,000,000 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\$45,000,000.

**1.155 “US Tranche B Agent”**

“US Tranche B Agent” shall mean Export Development Canada as agent for the US Tranche B Lenders together with its successors and assigns in such capacity.

**1.156 “US Special Agent Advances”**

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

**1.157 “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.

**1.158 “US Tranche B Loan”**

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

**1.159 “US Tranche B Lenders”**

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

**1.160 “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.

**1.161 “Wachovia”**

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

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## 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.

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## 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.
- (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

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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 1.10 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

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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

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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.

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## 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 August 3, 2007. 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)(iii), 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.

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- (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 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.

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- (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 August 3, 2007.
- (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.

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## 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

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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.

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- (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.
- (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.

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**2.7 Term Loan**

- (a) Subject to, and upon the terms and conditions contained herein, Revolving Lender agrees to make the Term Loan to Canadian Borrower available once only in a single advance on or around the date Agent determines the amount of the Term Loan pursuant to Section 2.7(b).
- (b) The Term Loan shall not exceed the lesser of:
  - (i) US\$1,500,000; or
  - (ii) the US Dollar Amount of eighty (80%) percent of the appraised value of the Eligible Equipment 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 6.4(g); or
  - (iii) the US Dollar Amount of ninety (90%) percent of the appraised value of the Eligible Equipment, net of liquidation expenses, with appraisals conducted on an auction value basis at the expense of Canadian Borrower by independent appraisers acceptable to Agent and otherwise in accordance with Section 6.4(g).
- (c) The Term Loan is (a) evidenced by a term promissory note (the “**Term Note**”) in such original principal amount duly executed and delivered by Canadian Borrower to Revolving Lender concurrently herewith; (b) to be repaid, together with interest and other amounts, in accordance with this Agreement, the Term Note, and the other Financing Agreements and (c) secured by all of the Collateral.
- (d) Canadian Borrower shall make equal quarterly payments of US\$75,000 on account of principal on the Term Loan to the Agent, for the benefit of Revolving Lender, on the first Business Day of each quarter commencing on October 1, 2008 and ending on the Maturity Date and otherwise in accordance with the Term Note. On the Maturity Date or earlier on demand if an Event of Default occurs, the remaining unamortized balance of the Term Loan together with all other Obligations with respect thereto (including accrued and unpaid interest therein) shall be due and be payable. The Term Loan may be prepaid in whole or in part at any time without notice or penalty. Any prepayment received will be applied against scheduled payments in reverse order of maturity. All repayments on account of the Term Loan made from time to time shall be applied to permanently reduce the aggregate amount of the Term Loan.

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### 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 and the Term Loan. 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.

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- (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.
- (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.

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- (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\$75,000, 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 August 3, 2007 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 third (3rd) and fourth (4th) 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 second (2nd) anniversary hereof and the third (3rd) 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

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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

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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 exists); (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

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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 Intentionally Deleted.**

##### **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.

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## **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.

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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:

- (iii) 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
- (iv) 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.
- (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

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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 SMTC Mex Holdings Inventory 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, Term Loan, 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 arising from monetary proceeds of collections or of realization upon the Revolving Loan Priority Collateral including any Account of SMTC Mex Holdings arising from the sale of SMTC Mex Holdings Inventory 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, Term Loan, 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, Term Loan, 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, Term Loan, 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 arising from the sale of SMTC Mex Holdings Inventory 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 SMTC Mex Holdings Inventory 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;

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- (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, Term Loan, 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, Term Loan and Letter of Credit Accommodations;
  - (I) ninth, to the *pro rata* payment in full of principal due in respect of any Revolving Loans, Term Loan, 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

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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 and Term Loan pursuant to clauses (G), (H), (I) or (J) above at a time when any of the US Obligations owing to US Tranche B Lenders 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' US 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 Term 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.

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## **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 and the Term Loan 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 August 3, 2007, (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.

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## 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.

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## 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

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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, contra, 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.

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### **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; (f) Canadian Borrower assumes all responsibility and liability arising from the use of the Equipment; and (g) Canadian Borrower shall, at its expense, at any time or times as Agent may request on or after an Event of Default has occurred and is continuing, deliver or cause to be delivered to Agent and Tranche B Agent written reports and appraisals as to the Equipment 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.

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## **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

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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

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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.

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#### **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).

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- (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.

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- (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.
  - (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.

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- (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,

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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 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

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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

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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

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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

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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 forty-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

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Sections 8.19, 8.23, 8.24 and 8.25 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.

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- (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.

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### **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

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(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; (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;

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(e) loans, advances, investments, purchases, repurchases, guarantees, assumptions, endorsements or responsibilities up to US\$250,000 (less any amount used by US Borrowers in accordance with Section 8.10(e) of the US Loan Agreement) in the aggregate per fiscal year of SMTC Corporation provided that (i) prior to any such action Total Excess Availability is greater than US\$3,000,000 immediately after giving effect to such action or the average Total Excess Availability is greater than US\$3,000,000 for the fifteen (15) days immediately preceding such action and (ii) any unused portion of such US\$250,000 permitted amount may not be carried over to the next succeeding fiscal year of SMTC Corporation; and (f) Agent, Tranche B Agent and US Lenders acknowledge that SMTC Corporation and its indirect subsidiary SMTC Asia Limited propose to enter into a joint venture agreement (a draft of which has been provided to Agent and marked "Draft (7): July 7, 2008") with Alco Holdings Limited and its indirect subsidiary Commusonic Industries Limited pursuant to which the parties thereto will agree to jointly pursue the formation of a company to be located in Hong Kong and named SMTC Alco Limited with its objective being to establish and operate a manufacturing facility in Chang An, Guangdong Province, People's Republic of China and US Borrowers agree to cause SMTC Asia Limited to provide Agent with such guarantees, and first-ranking security over its property as Agent may request together with applicable certificates, resolutions and opinions related thereto, all in form and substance satisfactory to Agent in its sole discretion.

#### **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.

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### **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.

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- (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\$ 8,500,000
September 2008	US\$ 8,500,000
December 2008	US\$ 8,500,000
March 2009	US\$ 8,500,000
June 2009	US\$ 10,000,000
September 2009	US\$ 10,000,000
December 2009	US\$ 11,000,000
March 2010	US\$ 12,000,000
June 2010	US\$ 12,000,000
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

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**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**

- (a) 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).
- (b) 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:

<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	1.00
September 2008	1.00
December 2008	1.00
March 2009	1.00
June 2009	1.10
September 2009	1.10
December 2009	1.20
March 2010	1.20
June 2010	1.20
September 2010	1.20

December 2010	1.20
March 2011	1.20
June 2011	1.20
September 2011	1.20
December 2011	1.20
March 2012	1.20
Thereafter	1.20

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 in the table below 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
September 2008	3.50x
December 2008	3.50x
March 2009	3.50x

June 2009	3.30x
September 2009	3.30x
December 2009	3.00x
March 2010	3.00x
June 2010	3.00x
September 2010	3.00x
December 2010	3.00x
March 2011	3.00x
June 2011	3.00x
September 2011	3.00x
December 2011	3.00x
March 2012	3.00x
June 2012	3.00x

For purposes of calculating the Maximum Total Debt covenant, the following amounts of EBITDA 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

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.

<u>End of Fiscal Year</u>	<u>Maximum Capital Expenditure for Fiscal Year</u>
December 2007	US\$ 4,000,000
December 2008	US\$ 3,000,000

December 2009	US\$ 4,000,000
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:

<u>Fiscal Quarter Ending</u>	<u>Capital Expenditures</u>
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,

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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;

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- (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;
  - (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; or
  - (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.

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## 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,

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(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

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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.

- (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;

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- (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;
  - (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.

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- (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.

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- (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.

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- (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.

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- (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.

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**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.

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- (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

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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).

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- (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.

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**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

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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 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 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,

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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.
- (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

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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.

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### **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.

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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 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

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*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);
  - (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

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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. (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).
- (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

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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 reasonably 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;

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- (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

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- (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.

#### **11.15 Tranche B Agent and Tranche B Lender**

Notwithstanding any other term of this Agreement or the Financing Agreements, as of the Closing Date and as a result of the Tranche B Loan Payout and the Resignation there exists no Tranche B Loan, Tranche B Agent or Tranche B Lender and no party hereto and their respective successors and assigns shall have any obligations or duties to “Tranche B Agent” or “Tranche B Lender” and there shall exist no “Tranche B Agent” or “Tranche B Lender” without the prior written consent of Agent and Revolving Lender, each such consent to be in its sole respective discretion, and without notice to Canadian Borrower.

### **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

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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

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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

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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.

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## 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.

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- (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.

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- (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

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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, Revolving Lender, Tranche B Agent and Tranche B Lender for outstanding loans and advances to Canadian Borrower under the Amended and Restated Canadian Loan Agreement and in respect of Letter of Credit Accommodations, together with all interest accrued and accruing thereon

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(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, Revolving Lender, Tranche B Agent and Tranche B Lender to the extent set forth in the Amended and Restated 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, the Amended and Restated 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, the Amended and Restated Canadian Loan Agreement, Existing Security Agreements, this Agreement or any of the other Financing Agreements.

### **13.3 Amended and Restated Canadian Loan Agreement**

Canadian Borrower hereby acknowledges, confirms and agrees that, subject to Section 13.4 hereof: (a) the Amended and Restated 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 and the Amended and Restated 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 and the Amended and Restated 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 Amended and Restated 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

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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, Tranche B 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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]**

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**IN WITNESS WHEREOF**, Revolving Lender, Agent 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: /s/ Niall Hamilton

Name: Niall Hamilton  
Title: Senior Vice President

Address:

141 Adelaide Street West, Suite 1500  
Toronto, Ontario, M5H 3L9  
Attention: Mr. Niall Hamilton  
Senior Vice President  
Fax: (416) 364-8165

CANADIAN BORROWER

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

By: /s/ Jane Todd

Name: Jane Todd  
Title: Chief Financial Officer

Address:

635 Hood Road  
Markham, Ontario, L3R 4N6  
Attention: Jane Todd  
Chief Financial Officer  
Fax No: (905) 479-5326

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Each of the undersigned Obligor hereby:

- (a) acknowledges, confirms and agrees that such Obligor's Financing Agreements (as each of the same may have been amended, modified, supplemented, extended, renewed, restated or replaced) remain in full force and effect as at the date hereof in respect of the Obligations under this Agreement;
- (b) acknowledges and confirms that such Obligor has received a copy of the Original Canadian Loan Agreement, the Amended and Restated Canadian Loan Agreement and this Agreement and understands the terms thereof;
- (c) acknowledges and confirms that the representations and warranties set forth in the Financing Agreements to which it is a party continue to be true and correct as of the date hereof; and
- (d) acknowledges and confirms that it is in compliance with the covenants set forth in the Financing Agreements to which it is a party as of the date hereof.

Dated August 7, 2008.

**SMTC CORPORATION**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**HTM HOLDINGS, INC.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**RADIO COMPONENTES DE MEXICO, S.A. DE C.V.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC NOVA SCOTIA COMPANY**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

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**SMTC DE CHIHUAHUA, S.A. DE C.V.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC HOLDINGS, LLC**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC MANUFACTURING CORPORATION OF CALIFORNIA**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**SMTC MEX HOLDINGS, INC.**

By: /s/ Jane Todd  
Name: Jane Todd  
Title: Chief Financial Officer

By: /s/ John Caldwell  
Name: John Caldwell  
Title: Chief Executive Officer

**AMENDING AGREEMENT**  
**REGARDING SMTC HOLDINGS, LLC**

**THIS AMENDING AGREEMENT** is given by SMTC Holdings, LLC (the “**Corporation**”) and is dated as of the 7<sup>th</sup> day of August, 2008.

**WHEREAS**, the Corporation has guaranteed all obligations, liability and indebtedness of SMTC Manufacturing Corporation of Massachusetts (“**SMTC Massachusetts**”), SMTC Manufacturing Corporation of California (“**SMTC California**”) and SMTC Mex Holdings, Inc. (“**SMTC Mex**”) to, among others, Wachovia Capital Finance Corporation (Central), as agent (the “**US Agent**”) and the lenders from time to time party to the US Loan Agreement (as defined in the Security Agreement (defined below)) (the “**US Lenders**”);

**AND WHEREAS**, the Corporation has guaranteed all obligations, liability and indebtedness of SMTC Manufacturing Corporation of Canada/Societe de Fabrication SMTC du Canada (“**SMTC Canada**”) to Wachovia Capital Finance Corporation (Canada), as agent (the “**Canadian Agent**”) and the lenders from time to time party to the Canadian Loan Agreement (as defined in the Security Agreement (defined below)) (the “**Canadian Lenders**”);

**AND WHEREAS**, the Corporation entered into an amended and restated general security agreement dated August 10, 2007 (the “**Security Agreement**”) in favour of Wachovia Capital Finance Corporation (Central), as collateral agent (the “**Secured Party**”) for, among others, itself, US Agent, US Lenders, Canadian Agent and Canadian Lenders;

**AND WHEREAS**, the Corporation entered into an amended and restated pledge and security agreement dated August 10, 2007 (the “**Pledge Agreement**”) in favour of the Secured Party for, among others, itself, US Agent, US Lenders, Canadian Agent and Canadian Lenders;

**AND WHEREAS** the Corporation wishes to enter into this agreement to amend the Security Agreement and the Pledge Agreement as set out herein;

**NOW THEREFORE** in consideration of One Dollar and for other good and valuable consideration, the Corporation agrees as set out herein.

1. This Amending Agreement is an amendment to the Security Agreement and the Pledge Agreement. Unless the context of this Amending Agreement otherwise requires, the Security Agreement and this Amending Agreement shall be read together and shall have effect as if the provisions of the Security Agreement and this Amending Agreement were contained in one agreement. Unless the context of this Amending Agreement otherwise requires, the Pledge Agreement and this Amending Agreement shall be read together and shall have effect as if the provisions of the Pledge Agreement and this Amending Agreement were contained in one agreement.
2. The term “Agreement” when used in:

- (a) the Security Agreement means the Security Agreement as amended by this Amending Agreement, together with all amendments, modifications, supplements, extensions, renewals, restatements, replacements and novations thereof from time to time; and
  - (b) the Pledge Agreement means the Pledge Agreement as amended by this Amending Agreement, together with all amendments, modifications, supplements, extensions, renewals, restatements, replacements and novations thereof from time to time.
3. The Corporation wishes to make the following amendments:
- (a) the Security Agreement is hereby amended to delete the words "SMTC Group Holdings, LLC" on the signature page and replace it with "SMTC Holdings, LLC";
  - (b) the Pledge Agreement is hereby amended to delete the words "SMTC Group Holdings, LLC" on the signature page and replace it with "SMTC Holdings, LLC".
4. This Amending Agreement may be executed by facsimile or portable document format.
5. The validity, interpretation and enforcement of this Amending Agreement, 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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**IN WITNESS WHEREOF** the undersigned has executed this Amending Agreement as of the day and year first above written.

**SMTC HOLDINGS, LLC**

**By: SMTC Corporation, its sole member**

By: /s/ Jane Todd

Name: Jane Todd

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 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: August 13, 2008

/s/ John Caldwell

John Caldwell

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 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: August 13, 2008

/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 June 29, 2008 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 March 30, 2008 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: August 13, 2008

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 June 29, 2008 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 March 30, 2008 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jane Todd

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Jane Todd

Chief Financial Officer

Date: August 13, 2008

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.