



## CARLISLE CAPITAL STRUCTURES CORPORATION

October 24, 2006

Kingsway Arms Management Services Inc.  
 Kingsway Arms Holdings Inc.  
~~Kingsway Arms Management Holdings Inc.~~  
 Chaplin Ventures Ltd.  
 Colter Investments (GP) Ltd.  
 Messrs. Allan Grossman, Patrick Byrne and Graham Parker  
 c/o Kingsway Arms Management Services Inc.  
 8555 Jane Street  
 Suite 102  
 Vaughan Ontario L4K 5N9  
 Canada

Dear Sirs:

RE: Second Mortgage Financing of a 138 unit Independent Living facility in Mission,  
 British Columbia referenced as *Cedarbrooke Chateau* (the "Project")

Carlisle Capital Structures Corporation is pleased to offer the following mortgage loan (the "Loan") to you to assist in the construction of the project referred to above on the terms and conditions set out in this letter (the "Commitment"). The Lender, as defined below, has concurrently made available to the Borrower, as defined below, a first mortgage facility (the "First Mortgage Facility") for \$25,360,000 on terms and conditions set out in a letter of commitment dated the date hereof.

1. Lender

Carlisle Capital Structures Corporation (the "Lender")

2. Borrower

The registered owner of the property, a joint venture vehicle controlled by, among others,  
 Kingsway Arms Management Services Inc., Chaplin Ventures Ltd. and Colter Investments (GP)  
 Ltd. (the "Borrower")

710 - 1210 SHEPPARD AVE. EAST, TORONTO, ONTARIO M2K 1E3  
 TELEPHONE: 416.499.7581 FACSIMILE: 416.499.9117  
 E-MAIL: [carlisle@carlislecapital.ca](mailto:carlisle@carlislecapital.ca)

This is Exhibit B..... referred to in the affidavit of  
MARK KATZ..... sworn (or affirmed)  
 before me on ..... [dd/mm/yyyy]

A Commissioner for taking Affidavits  
 within ~~British Columbia~~  
 Ontario



3. Loan Amount

Up to the lesser of \$25,360,000 or 80% of approved project costs, by means of a non-revolving demand construction loan. The loan amount shall be reduced by \$1,000,000 in the event the Borrower is able secure a further \$1,000,000 of equity investment (confirmed by the Lender's quantity surveyor) prior to the first advance under the Second Mortgage Facility.

4. Interest Rate

The interest rate shall be the Prime Rate of the Royal Bank of Canada, as determined from time to time, plus 2% per annum (the "Interest Rate").

5. Term

The earlier of (i) demand (ii) 24 months after substantial completion of the Project and (iii) 48 months after the Disbursement Date (as hereinafter defined) (the "Term").

6. Amortization

Interest only.

7. Use of Proceeds

The proceeds of the Loan will be utilized for the construction financing of the Project referred to above and to fund the direct project costs associated therewith.

8. Disbursement

Direct advances are available on the basis of cost to complete and value of work in place. A first advance of the Loan will be made on or before October 31, 2007, or such other date as may be mutually agreed to by the parties hereto (the "Disbursement Date"), provided that, in no circumstances, shall the Disbursement Date occur after December 31, 2007. For all advances, the Borrower shall deliver a drawdown request (the "Drawdown Request") to the Lender no later than 12:00 noon (EST) on or before the fifth (5<sup>th</sup>) business day prior to the business day on which the Borrower wishes the advance to be made. Each Drawdown Request delivered to the Lender shall be irrevocable by the Borrower.

For greater certainty, if the Borrower requisitions the Loan proceeds to be available for a certain date (being the anticipated closing date (the "Funding Date")) then, whether or not the Borrower is ultimately entitled to the advance of the Loan on such date, and whether or not it avails itself thereof on such date, the Borrower agrees that it shall in accordance with the Commitment pay interest calculated pursuant hereto from and after the Funding Date.

All advances of the Loan are subject to:

- (a) the Second Mortgage Facility is fully drawn at the time of the first advance of the Loan;



- (b) the satisfaction of all the conditions precedent set forth in the Section entitled "Conditions Precedent to Funding" and "Construction Disbursement Procedures" below; and
- (c) compliance with all other terms and conditions of this Commitment.

9. Repayment

All amounts shall be repaid on demand by the Lender and unless and, until otherwise demanded, interest shall accrue on the amount of the Loan outstanding from time to time (the "Outstanding Amount") at the Interest Rate. Interest shall be payable in arrears on the first day of each month during the Term with the first instalment being payable on the first day of the month after the Disbursement Date and the last instalment being payable on the last day of the Term (the "Maturity Date").

The Lender and the Borrower shall establish an interest reserve account for the purposes of paying interest as provided for under this Section with the mortgage service provider or such other financial intermediary as the Lender may determine in its sole discretion. The minimum amount to be held in the interest reserve at any time is the amount equal to [two months] interest which may otherwise accrue hereunder. The first funding of the interest reserve account shall be made by the Borrower in an amount not less than \$260,000 concurrently with the first advance made by the Lender under the Loan described in Section 8 above. The interest reserve account shall be funded by Borrower thereafter from time to time by advances made by the Lender pursuant to Section 17 or pursuant to the Borrower's own resources in amounts so as to insure two months interest is set aside thereunder. Any failure to fund the interest reserve account shall constitute an event of default hereunder.

10. Prepayment

The Loan shall be closed for a period of twenty four (24) months from the Disbursement Date and shall, thereafter, be open for prepayment in full (including all outstanding or accrued interest) without penalty upon sixty (60) days prior written notice to the Lender. There are no partial prepayment privileges.

11. Realty Taxes

Borrower shall, on a quarterly basis, provide satisfactory proof to the Lender that all applicable realty taxes (including any local improvement charges) for the Property have been paid in full.

12. Loan Processing Fee

The Borrower shall pay to the Lender a non-refundable loan processing fee of 1% of the total approved loan amount, which shall be fully earned and payable upon the acceptance of this Commitment. Notwithstanding that the loan processing fee will be fully earned upon acceptance hereof, the Lender has agreed to defer payment until the earlier of (i) the date of the first advance under the Loan and (ii) December 31, 2007. For greater certainty, the loan processing fee shall be paid in accordance with the foregoing, whether an advance is made or not. In the event the



first advance under the Loan shall occur prior to December 31, 2007 the fee shall be deducted in full from the first advance.

**13. Good Faith Deposit**

Upon acceptance of this Commitment, the Borrower agrees to pay to the Lender, or as the Lender may otherwise direct in writing, a good faith deposit of \$150,000 (the "Good Faith Deposit"). Upon disbursement of the first draw under the Loan, the Good Faith Deposit shall be returned to the Borrower, without interest.

In the event this Commitment is cancelled by the Lender in accordance with its rights hereunder, the Good Faith Deposit shall be retained by the Lender as liquidated damages, and not as a penalty, without prejudice to the rights of the Lender to claim such further and other damages as it may sustain by reason of the occurrence of any of the events detailed in Subsections (a) to (e) of the Section of this Commitment entitled "Cancellation of Commitment" or otherwise. It is agreed that the Good Faith Deposit and the loan processing fee represent the reasonable cost of the Lender's work and expenses in underwriting the Loan and that it is not a penalty.

**14. Security**

The following security shall be required for the Loan:

- (a) a first in priority mortgage and charge (the "Mortgage") of the fee simple interest of the Borrower in the lands and improvements thereon described in Schedule 3 annexed hereto (the "Property");
- (b) a first in priority general assignment of rents and/or leases of the Property;
- (c) a first in priority general security agreement over all the Borrower's present and after-acquired personal property located on, related to, arising from or used or acquired in connection with the Property;
- (d) a first in priority specific assignment of any management contracts relating to the Property, which contracts shall be satisfactory to the Lender;
- (e) a Guarantee and Postponement of Claim from Kingsway Arms Management Services Inc., Kingsway Arms Holdings Inc., Chaplin Ventures Ltd. and Colter Investments (GP) Ltd., ~~Allen Gossman~~ Patrick Byrne, Graham Parker and every other party having an interest in the Borrower (collectively, the "Additional Covenantors") who shall be jointly and severally liable with the Borrower for all obligations of the Borrower under the Security Documents and this Commitment;
- (f) a warranty and indemnity agreement executed by each of the Borrower and the Additional Covenantors (if any) attesting to the absence of any regulated, hazardous or toxic substances on or underneath the Property and holding the Lender harmless from all costs or damages suffered or incurred as a result of any regulated, hazardous or toxic substances whether emanating from or found on or

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underneath the Property or any other property, and all costs of the performance of any audits, investigations, analyses, testing or cleanup by the Borrower, or any environmental consultant or engineer as requested by the Lender, to verify the matters set out in the warranty and indemnity;

- (g) deficiency and debt service agreements to be executed by the Borrower and the Additional Covenantors (if any), agreeing to fund all costs not included in or in excess of forecasted expenditures (or in excess of the agreed contingency funds) as per the construction budget approved by the Lender under the Section entitled "Construction Budget" below;
- (h) general assignment of Project Drawings and Specifications (as hereinafter defined) and all other permits, architectural, engineering and construction contracts;
- (i) a pledge and assignment of all of the interest of the Borrower and the Additional Covenantors in the Project;
- (j) a pledge and assignment of all of the shares of the Borrower or the entity possessed of legal title to the Property;
- (k) Subject to the rights contained in any management contract approved by the Lender, satisfactory agreement in favour of Lender from the Borrower and the Additional Covenantors (if any) that they will not withdraw funds from the Property in any way, either directly or indirectly, including, without limitation, by way of dividends, loans, management fees, profit participations or other devices or techniques until the Loan is repaid in full and all obligations hereunder or under the Security Documents have been performed in full;
- (l) a specific assignment of, charge of and security interest in any governmental license required for the operation of the business at the Property, together with the power to use, surrender or arrange the revocation of such license and, if required, the licensing body shall have consented to same; and
- (m) such further security as the Lender may require.

The documents above being herein collectively referred to as the "Security Documents". The Security Documents shall be prepared by the Lender's counsel using the Lender's standard forms and, other than those amendments specifically required by the terms and conditions of this Commitment Letter, shall not be amended in any other respect.

#### 15. Construction Budget

This Loan facility shall be subject to the approval by the Lender of a detailed construction budget (the "Construction Budget") and cash flow for the proposed construction and lease up of the Property, as the case may be, setting out hard and soft costs in form and substance satisfactory to the Lender that has been reviewed and verified against the approved Project Drawings and



Specifications by a quantity surveyor chosen or approved by the Lender (the "Quantity Surveyor") (who is to confirm same to the Lender). Lender must approve the contractor and construction contracts relating to the Project. Any revisions to the original approved construction budget in excess of 1% or to plans and specifications will require the consent of the Lender.

#### 16. Conditions Precedent to Funding

On or before the Loan is advanced, the following conditions precedent shall have been satisfied in the Lender's sole and subjective discretion:

- (a) the executed Security Documents shall have been delivered and, where appropriate, registered with the priority required herein at all appropriate registration offices;
- (b) the Project shall have been registered under the provisions of the *Strata Property Act* (British Columbia) and the strata property corporation shall be the sole owner of the strata lots set out in the strata plan; the strata property corporation shall be the Borrower or an entity wholly-owned and controlled by the Borrower;
- (c) the Lender shall have been provided with a satisfactory appraisal report for the Property addressed to it, prepared by an appraiser acceptable to the Lender and setting out a market value for the Property with a stabilized occupancy value (after improvements) of \$39,600,000;
- (d) the Lender shall have received a Phase 1 (and, if applicable, a Phase II) environmental site assessment for the Property addressed to it, prepared by an environmental consultant acceptable to it and confirming, to the Lender's satisfaction, that there are no hazardous substances on or about the Property and that the Property complies with all applicable environmental laws. If the environmental site assessment contains any recommendations, the Borrower shall have provided confirmation that all such recommendations have been satisfied. The Security Documents shall contain representations, warranties and covenants and an indemnity with respect to environmental matters, all as set out in Schedule 1 hereto;
- (e) the Lender shall have received an engineering report for the Property, addressed to it and prepared by an architect or engineer satisfactory to it, reporting on the physical condition of the Property and setting out the cost to remedy any deficiencies, all of which shall be acceptable to the Lender; this report should indicate, *inter alia*, that the buildings on the Property are structurally sound and are not composed of unbonded, post-tensioned structures and all mechanical, electrical and other systems are in good working order;
- (f) delivery of certified copies of the property, liability and other insurance policies in compliance with the insurance requirements set out in Schedule 2 (which may be amended by the Lender if the Property is vacant land only) and any bond for



performance and/or material and labour required hereunder and the review and approval of same by the Lender's insurance consultant, such review to be at the Borrower's expense and Lender's quantity surveyor;

- (g) a vacant land survey showing plot dimensions, easements, rights of way and location of adjoining streets; immediately after the foundation is complete, a "foundation" survey showing plot dimensions, location and dimensions of all improvements, easements, rights of way and location of adjoining streets;
- (h) title to the Property shall be satisfactory to the Lender and all realty taxes, local improvement charges and rates in respect of the Property shall have been paid, each as evidenced by an opinion from Borrower's counsel, or, at Lender's discretion, Lender's counsel;
- (i) title to all personal property of the Borrower shall be satisfactory to the Lender and free of all liens, encumbrances and security interests ;
- (j) the Lender shall be satisfied that the Property complies with all applicable building, development and zoning by-laws, that the use of the Property is in compliance with all applicable legislation, including the applicable Fire Code and that there are no outstanding work orders, deficiency notices, directives, investigations or the like with respect to the Property;
- (k) the Lender shall have received, reviewed and approved complete copies of all existing non-residential leases for the Property, together with all related renewals, amendments, assignments, guarantees, indemnities and other related agreements, as well as the Borrower's standard non-residential lease form in each case, as applicable;
- (l) with respect to each non-residential lease that provides for monthly net rental payments in excess of \$2,500, the Borrower shall have delivered a tenant estoppel certificate in the Lender's required form signed by each tenant and confirming, *inter alia*, that it is in possession of its premises, open for business and paying rent in accordance with its lease. Borrower will specifically provide Lender with its standard form tenancy agreement;
- (m) the Lender shall have received and approved a copy of the management agreement(s) for the Property, any and all joint venture agreements, agreements entered into ancillary to any joint venture agreement and all agreements with non-arms length parties entered into in connection with the Project;
- (n) copies of all documents filed with any regulatory authority in connection with the registration of the Project under the *Strata Property Act* (British Columbia);
- (o) the Lender shall have received an opinion from the Borrower's and, if applicable, the Additional Covenantors' counsel with respect to, *inter alia*, the due authorization, execution, delivery and enforceability of the Security Documents,

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in form and substance satisfactory to the Lender, together with copies of all officer's certificates, resolutions and certificates of status referred to therein;

- (p) the Borrower shall have delivered to the Lender the executed "pre-authorized payment" documents as may be required by the Lender with respect to the monthly payments of principal and interest from the Borrower's bank account;
- (q) the representations and warranties provided hereunder and pursuant to the Security Documents shall be correct and true in all respects as of the Disbursement Date;
- (r) such financial and other information, statements and documentation as the Lender may reasonably require in connection with the underwriting or closing of the Loan (including recent audited financial statements, up-to-date rent roll, and an aged tenant receivable report, in respect of the Property) shall have been delivered to it and all other requirements of this Commitment shall have been satisfied;
- (s) the Lender shall have received a statutory declaration of a senior officer of the Borrower, satisfactory in form and substance to the Lender, confirming that all rents of the Property are legal, that no proceedings exist which could result in a decrease in the legal rents chargeable, that no orders exist prohibiting rent increases and that no work orders exist which could result in the issuance of an order prohibiting rent increases;
- (t) to the extent necessary under: (i) any permitted prior financing, (ii) any material lease, or (iii) any other material agreement affecting the Property, the Lender shall be satisfied that any required consents or other items required from third parties in connection with the making of the Loan and/or the taking of the security as provided for herein have been delivered to the Lender and any other third party requirements have been complied with, in each case, prior to closing; *(When made available)*
- (u) the Lender shall have received copies of the detailed plans and specifications for the proposed construction of the project (the "Project") on the Property as to architectural, structural, electrical, mechanical, plumbing, interior design, and landscaping matters as prepared by or for the Borrower, as same may be amended from time to time (the "Project Drawings and Specifications"); *CC*
- (v) the Lender shall be satisfied that all required licenses, permits and approvals required from any governmental or quasi-governmental authority for: (i) the operation of the business conducted or to be conducted from the Property; and (ii) the completion of the proposed construction of the Project in accordance with the Project Drawings and Specifications, have been issued to the Borrower, are in good standing and any conditions precedent to the assignment thereof to the Lender as security for the Loan have been satisfied;
- (w) the Lender shall be satisfied that all required licenses, permits and approvals required from any governmental, or quasi-governmental, authority for the





operation of the business conducted from the Property have been issued to the Borrower, are in good standing and any conditions precedent to the assignment thereof to the Lender as security for the Loan have been satisfied;

- (x) there shall have been no material adverse change to the Borrower, the Additional Covenantors (if any) or the Property since the date hereof;
- (y) copies of all contracts related to the Borrower's operations that provide for annual payments in excess of \$10,000 and that require more than 60 days notice to terminate shall have been provided to the Lender, shall be satisfactory to the Lender and shall have been assigned to the Lender, with the consent of third parties where required pursuant to the terms thereof;
- (z) the Lender shall have reviewed and approved a detailed Construction Budget and, if required by Lender, an operating budget for the Property;
- (aa) the Lender shall have received and approved of all such documents, plans (including Project Drawings and Specifications), projection and other materials relating to the Property and the proposed construction of the Project thereon, which the Lender deems necessary, including, without limitation any development agreement, site-plan agreement or approvals;
- (bb) The Lender shall have received from the Borrower:
  - (i) updated personal financial statements of each of the Additional Covenantors who are individual persons;
  - (ii) an opening pro forma balance sheet for the Borrower;
  - (iii) updated year-end financial statements for the Additional Covenantors (if any) not an individual person (or, if recently incorporated, interim balance sheet and profit and loss statement);
  - (iv) copy of Project Management Agreement;
  - (v) finalized detailed construction budget and timetable for the Project confirming that construction hard costs (excluding land at a cost of \$1,650,000) and soft costs, including lease up costs, will be within the amount of \$30,050,000 including loan interest for the estimated construction and lease-up period. The budget shall be reviewed and approved by the Lender's Quantity Surveyor;
  - (vi) satisfactory evidence that the Borrower has arranged for construction of the project to be carried out by contractors approved by the Lender and the quantity surveyor hired by the Lender. Prior to the initial advance under the Loan, fixed price contracts must be awarded and finalized for all major subtrades for work amounting to not less than 45% of all hard-



costs (i.e., all major subtrades including, but necessarily limited to structural, mechanical, electrical, forming and concrete contracts), increasing to 70% within 120 days of the first advance date.

- (vii) satisfactory evidence of bonding on labour, materials and performance to a 50% level on all contracts;
- (viii) site inspection by the Lender;
- (ix) evidence of equity contribution by the Borrower of at least 8% of the project costs; and
- (cc) Lender shall have received a report of the Quantity Surveyor, confirming that the proposed construction of the Project on the Property can be completed within the Construction Budget limits and on schedule.

All conditions precedent to funding expressed herein are for the sole benefit of the Lender and may be waived in writing at its option. The Borrower shall do everything necessary to meet all such conditions precedent.

#### 17. Construction Disbursement Procedures

- (a) The following shall be provided to the Lender each time the Borrower wishes an advance to be made under the Loan:
  - (i) Claim for progress draw ("Progress Claim"), containing a breakdown of all subtrade accounts, which shall be accompanied by a statutory declaration of an officer of the Borrower declaring that all subtrade accounts for the Project for the period of 30 days immediately preceding the Progress Claim have been paid in full, except for accounts which are to be paid under the Progress Claim;
  - (ii) A project cost summary (the "Project Cost Summary") in form approved by the Lender's quantity surveyor certified by the Borrower's architect or engineer or such other person identified as the payment certifier under the construction contract or contracts entered into by the Borrower with respect to the Project, as required by the *Builders Lien Act* (British Columbia), or similar legislation, which shall set out:
    - (A) the original estimate of the cost of construction of the Project;
    - (B) the present estimate of the cost of construction of the Project;
    - (C) the percentage of the construction completed to date;
    - (D) the estimated cost to complete the Project;



- (E) the value of the construction cost covered under the Progress Claim;
  - (F) the variance from the original budget;
  - (G) a breakdown of the cost of construction among direct construction costs and specific soft costs;
- (iii) A certificate from the Lender's quantity surveyor that:
- (A) all construction is being performed in accordance with the plans and specifications and fixed price contract approved by the Lender;
  - (B) construction is progressing in accordance with the construction timetable approved by the Lender;
  - (C) the portion of the Progress Claim pertaining to direct construction costs represents work actually completed on the Project;
  - (D) the estimate of the cost to complete as set out in the Project Cost Summary, including interest accruing due under the Construction Loan, is reasonable, accurate and sufficient to complete the Project, and does not exceed the unadvanced portion of the Construction Loan; and
  - (E) the investment of equity from the Borrower with respect to the Project of an amount not less than 8% of total approved Project costs.
- (iv) At the Borrower's cost, satisfactory report from the Lender's solicitors following a Land Title Office search on the Lands immediately prior to the advance, showing the Lands as being duly registered in the name of the Borrower and encumbered only by the Security Documents in favour of the Lender;
- (v) The Lender shall not be required to make an advance under the Construction Loan unless it has received the Required Notice of the Borrower's intention to call for an advance.
- (b) Prior to each advance of funds the Borrower will provide to the Lender a statutory declaration or certificate in the Lender's form confirming, inter alia, that no default or event of default has occurred, all representations and warranties remain true and correct and that all trades have been paid to date or will be paid to date from the advance, for the work completed to date. All funds are to be used for the construction of the Project; no Loan funds are to be used for any other property/project.

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- (c) Each advance of the Loan will be subject to all applicable construction lien (or similar applicable legislation) holdbacks and other requirements. Lien holdback amounts will not be advanced until at least 5 days after the expiry of all applicable lien periods and confirmation of same by the Lender's solicitor. Partial releases of lien holdback will be permitted provided that same is certified by the approved Quantity Surveyor and the Lender's solicitor as being acceptable pursuant to applicable legislation.
- (d) If at any time the costs incurred with respect to any completed work exceed the approved Construction Budget for such work, the Borrower and/or the Additional Covenantors will immediately pay for such excess cost by increasing the equity component. The Borrower and the Additional Covenantors must undertake to complete the project. ~~For further details of the terms of the loan, the Borrower must refer to the loan agreement and the Additional Covenantors must refer to the Additional Covenantors' agreement.~~
- (e) ~~CONFIRMATION FROM THE BORROWER THAT THE COST TO COMPLETE THE PROJECT DOES NOT EXCEED THE SUM OF 1) UNADVANCED AMOUNT OF MORTGAGE, 2) APPROVED INSURED PURCHASERS' DEPOSITS YET TO BE RELEASED ONTO THE PROJECT AND 3) THE APPROVED DEFERRED COSTS, THE BORROWER AND/OR ADDITIONAL COVENANTORS SHALL PAY FOR THE CONTINUING WORK DIRECTLY AS ANY PAYMENTS FALL DUE UNTIL SUCH TIME AS THE COST TO COMPLETE IS LESS THAN THE UNADVANCED AMOUNT OF THE MORTGAGE AND DEFERRED PURCHASERS' DEPOSITS AND APPROVED DEFERRED COSTS.~~
- (f) Under no circumstances will the Lender be obliged to make a final advance under the Loan until such time as construction of the Project has been certified as fully completed in accordance with the plans and specifications provided to and approved by the Lender and whatever statutory period for registration of liens has expired and no liens having been registered or notice of liens given, or, if liens have been registered or notice thereof given, the Borrower has obtained the discharge, release, vacating or withdrawal of all such liens as the case may be.
- (g) All conditions precedent to funding expressed herein are for the sole benefit of the Lender and may be waived in writing at its option. The Borrower shall do everything necessary to meet all such conditions precedent.
- (h) The Lender, at its option, may from time to time perform a site inspection, provided that, where no event of default exists, such inspections shall not be more frequent than once in any six month period.
- (i) The Borrower shall pay a construction disbursement fee of \$250 each time the Borrowers draws under the Loan provided for herein. Said fee will be deducted from the subject advance.
- (j) The administrative costs of the Lender's mortgage administrator relating to each advance shall be paid by the Borrower and may either be deducted from the next advance or, after the final advance of the Loan, may be added to the principal amount secured hereby.

### 18. Leases

In the case of residential leases, the Lender shall approve the Borrower's standard form of lease and the Borrower shall not amend same without the Lender's prior written consent. In the case of non-residential leases, the Lender shall have the right to approve all future tenants leasing space in excess of 2,500 square feet and the terms of their respective leases. At the Lender's option, all non-residential tenants shall enter into a non-disturbance and attornment agreement with the Lender (in form and substance satisfactory to the Lender) wherein the tenant agrees to attorn to the Lender on the terms of its lease on request and the Lender agrees not to disturb the occupancy of the Tenant so long as it is not in default.

### 19. Property Management

The Lender shall have the right to require the Borrower to retain professional third party property management for the Property satisfactory to the Lender. The Lender shall also have the right to approve the terms and conditions of the management agreement. Any change in the management of the Property shall require the prior written approval of the Lender, both as to manager and the terms and conditions of the management agreement. Lender acknowledges that the property is will be managed by Kingsway Arms Management Services Inc. Such management is currently satisfactory to the Lender.

### 20. Insurance

The Borrower will at all times comply with the insurance requirements set out in Schedule 2 hereto.

### 21. Financial Reporting

AT THE END OF YEAR ONE WE WILL DELIVER A BALANCE SHEET ONLY AS ALL EXPENSES ARE CAPITALISED IN THE COST. WE WILL PRODUCE COMPLETE FINANCIAL STATEMENTS AS REQUIRED BY THE LENDER.

Within one hundred and twenty (120) days after the end of each of the Borrower's fiscal years, or, if the Borrower is an individual, each calendar year, or more often if requested by the Lender, the Borrower shall provide to the Lender:

- (a) review engagement financial statements, or, where available or required by the Lender, audited statements, of the Borrower and the Additional Covenants (if applicable), including a Balance Sheet and supporting schedules, a detailed Statement of Income and Expenditures and supporting schedules, and a Statement of Change in Cash Flow; in the case of an individual Borrower or Additional Covenantor, net worth statements may be supplied in lieu of financial statements;
- (b) review engagement financial statements in respect of the Property, including a Balance Sheet and supporting schedules and a detailed Statement of Income and Expenditures and supporting schedules; and
- (c) a detailed budget for the Property for the next fiscal year, forecasting both operating income and expenses and capital expenditures.

Within fifteen (15) days after the end of each month, the Borrower shall provide to the Lender:



- (i) during the course of the proposed construction, a report from the Quantity Surveyor certifying the amount and value of construction completed and indicating that the cost to complete the proposed construction is in accordance with the approved Construction Budget and Project Drawings and Specifications;
- (ii) a rent roll and occupancy report for the Property;
- (iii) a budget versus actual analysis for the Property for the preceding twelve (12) months;
- (iv) a copy of all draw requests received from the contractors and approved by the Quantity Surveyor; and
- (v) at Lender's request, such other operational reports as may reasonably be requested by Lender, including those submitted to any governmental or quasi-governmental authority with respect to licensing requirements.

The Borrower hereby authorizes the Lender to obtain such other financial information from third parties respecting it as the Lender may require and the Borrower covenants to deliver any further financial information requested by the Lender as soon as reasonably possible.

If the Property is vacant land, the delivery set out in (ii) above will not be required.

**22. Due on Sale, Change of Control, etc.**

The Lender may, at its option, declare forthwith due and payable the entire balance of the unpaid principal together with accrued and unpaid interest due thereon, if, without the prior written consent of the Lender being obtained (such consent being in the Lender's sole discretion):

- (a) the Borrower or any Additional Covenantor (if applicable) directly or indirectly sells, conveys, transfers or otherwise disposes of its interest in the Property or any part thereof or agrees to do so;
- (b) if there is a change in the effective voting control of any of the Borrower or the Additional Covenantors (if applicable); or
- (c) if the Borrower or any of the Additional Covenantors (if applicable) amalgamates or merges, without the prior consent of the Lender.

The decision to accelerate the Loan shall be at the sole option of the Lender. Consent to one of the foregoing transactions shall not be deemed to be a waiver of the right to require consent to future or successive transactions.

The Borrower will provide reasonable prior written notice to the Lender of any anticipated or impending transaction which would require the consent of the Lender under this Section together



with all necessary information as the Lender may require to determine whether or not to grant its consent thereto.

23. First Right of Refusal on Maturity

The mortgage shall provide that the Lender shall have the right of first refusal with respect to any mortgage loan commitment that the Borrower is prepared to accept in respect of the replacement of the Loan or a part thereof upon its maturity. The Borrower shall provide the Lender with a copy of any such mortgage commitment, and the Lender shall have the right within three (3) business days of receipt of the commitment to provide the financing offered therein on substantially the same terms and conditions as therein set out. Any loan commitment which the Borrower accepts with respect to the replacement of the facility provided for herein shall be conditional for three (3) business days following delivery of such loan commitment to the Lender in order to allow the Lender to exercise this right of refusal.

24. Changes and Alterations

The Borrower will maintain the Property in good repair and condition and shall commit no waste on the Property. Any major changes, additions, and/or alterations contemplated to the Property, including any changes in use of the Property or nature of the business conducted from the Property, other than previously approved construction, must receive the Lender's prior written consent (such consent being in the Lender's sole discretion). The Borrower will provide reasonable prior written notice to the Lender of any anticipated or impending transaction which would require the consent of the Lender under this Section together with all necessary information as the Lender may require to determine whether or not to grant its consent thereto.

25. No Further Encumbrances

The Borrower shall not, without the Lender's prior written consent (such consent being in the Lender's sole discretion), further charge or otherwise encumber the Property or any interest therein.

26. Representations and Warranties

Each of the Borrower and the Additional Covenantors (if any), jointly and severally represent and warrant to the Lender that as of each of: (i) the date hereof; (ii) the Disbursement Date; and (iii) each date subsequent to the Disbursement Date upon which any advances of the Loan are made to the Borrower hereunder:

- (a) it is duly authorized, qualified and licensed under all applicable laws, regulations, ordinances and orders of public authorities to carry on business at the Property;
- (b) there is no action, suit, proceeding or investigation pending or threatened against it or affecting it or any of its property at law or in equity or before or by any federal, provincial or municipal department, commission, board, bureau, agency or instrumentality, any of which would have any material adverse affect on it or its ability to perform its obligations hereunder or under the Security Documents or



the validity or enforceability of the Loan or the Security Documents or any action to be taken in connection therewith;

- (c) it is not in default under or in violation of, in any material respect, any applicable law, decree, order, rule or regulation or any indenture, agreement, lease, deed of trust, mortgage, bond, or other evidence of indebtedness or other instrument by which it is bound;
- (d) it has not defaulted in the payment of principal or of interest under any other loan, debenture, note, bond or other evidence of indebtedness, nor has it defaulted in the performance of or compliance with any term, covenant or condition under any of the foregoing which, after the giving of notice or the passage of time, or both could constitute an event of default thereunder;
- (e) all financial statements presented to the Lender are true and correct in all material respects as of the date and for the periods indicated and have been prepared in accordance with Canadian generally accepted accounting principles and disclose to the Lender all information relevant to the Lender in respect of the making of the Loan;
- (f) the Property complies with, and the Borrower is not in connection with the ownership, use or maintenance of the Property and the conduct of its business therefrom, in violation of, any applicable federal, provincial, municipal or other laws, regulations, orders or approvals of any governmental, or quasi-governmental, authorities including all those relating to environmental matters;
- (g) to the best of its knowledge, after prudent due diligence, all information which has been provided to the Lender relating to the Property, by the Borrower and the Additional Covenantors (if applicable) is true and correct in all material respects and no material fact or facts have been omitted therefrom which would make such information misleading and, without limiting the generality of the foregoing, the Borrower has not failed to disclose to the Lender any facts or information which would be material to a lender in respect of the Property; and
- (h) the Borrower is the registered and beneficial owner of the Property with good and marketable title thereto in fee simple.

The Borrower and each Additional Covenantor (if applicable) acknowledge and agree that on the Disbursement Date the warranties and representations herein set out shall be true, complete and accurate and the Borrower and the Additional Covenantors (if applicable) shall, on a joint and several basis, indemnify and save harmless the Lender from and against all losses, damages and expenses directly or indirectly suffered by the Lender resulting from any inaccuracy or misrepresentation in any representation or warranty set forth in this Commitment.

Any breach of a term, covenant, condition, representation or warranty in this Commitment shall constitute an event of default under the Security Documents which shall entitle the Lender to exercise any or all of its rights and remedies thereunder, at law or in equity.







## 27. Cancellation of Commitment and Further Events of Default

At the sole option of the Lender, this Commitment may be cancelled and there shall be no obligation to disburse the Loan if:

- (a) due to the failure, for any reason, of the Borrower or any Additional Covenantor (if applicable) to satisfy any of the provisions or requirements hereof, the Lender has not been willing or able to disburse the Loan on or before June 31, 2009 (the "Close Out Date");
- (b) the Borrower or any Additional Covenantor (if applicable) is in breach of any term, covenant, condition, representation or warranty herein;
- (c) in the sole opinion of the Lender there is a material adverse change in the position, financial or otherwise, of the Borrower or any Additional Covenantor (if applicable) from that represented to the Lender as at the date hereof;
- (d) in the sole opinion of the Lender, there has been a material adverse change in the condition of the Property or in the actual or anticipated revenues therefrom from that existing at the date hereof; or
- (e) any situation exists which would constitute a default hereunder or under any of the Security Documents.

If the whole Loan Amount has not been disbursed on or before the Close Out Date, the Lender may, at its sole option, close out the Loan Amount at the amount then disbursed, if any.

The following shall be additional events of default entitling the Lender to exercise its remedies under the Security Documents, including its rights at its option to require the Borrower to immediately pay the entire amount of principal and accrued interest then outstanding:

- (a) if a material adverse change occurs in the financial position of the Borrower and/or the Additional Covenantors, the property given as security or the representations and warranties made by the Borrower and/or the Additional Covenantors;
- (b) if any of the representations and warranties made by the Borrower and/or the Additional Covenantors in any document or certificate delivered pursuant hereto is incorrect in a material respect; and/or
- (c) if construction on the project ceases for any reason whatsoever (strikes, material shortages, weather conditions or other events beyond the control of the Borrower excepted) for a period of 10 consecutive days. In such event, the Lender may, at its option, assume complete control of the construction of the project on such terms and in such manner as it deems advisable.

## 28. Expropriation



In the event that any portion of the Property is expropriated with the result that, in the Lender's opinion, the Lender's security is materially and adversely affected, the Lender may, at its option, require that the Loan, including accrued interest and all of the Lender's costs and expenses, be forthwith repaid in full.

29. Liens

On the Disbursement Date and each subsequent date upon which a Loan advance is made to the Borrower hereunder, there shall have been full and complete compliance with all requirements of the applicable construction, mechanics' or builders' lien legislation and the Borrower shall submit to the Lender, in form and substance satisfactory to the Lender, evidence of such compliance (including a sub-search opinion of the Borrower's counsel). The Lender may retain from any disbursement such amounts as it considers advisable to protect its interest from subordination under such legislation. The Borrower shall provide additional security, information and documentation as may be required by the Lender to preserve and ensure in all respects the absolute priority of the Mortgage contemplated herein over any rights of any existing or potential lien claimants.

30. Expenses

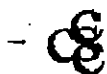
Whether or not the Loan is disbursed and notwithstanding retention of the Loan Processing Fee and Good Faith Deposit by the Lender, all of the Lender's costs and expenses, including, without limitation, all legal fees and disbursements (including title insurance premiums, if applicable) and the cost of all reports, appraisals, site visits, inspections and investigations incurred by the Lender in relation to the Loan and/or this Commitment shall be paid by the Borrower. The Borrower shall also be responsible for any commission or finder's fee payable in connection with this Commitment. All such amounts are payable forthwith, on demand by the Lender and may be deducted from any advance hereunder or be added to the principal balance of the Mortgage and shall bear interest at the Interest Rate.

31. Credit Investigations

The Borrower, each Additional Covenantor (if applicable) and their related entities hereby authorize the Lender to make inquiries concerning the character, general reputation, personal characteristics, financial and credit data of the Borrower and each Additional Covenantor, including, without limitation, their respective directors, officers, shareholders, and principals, and to verify any information provided to the Lender hereunder, all for the purpose of underwriting and servicing the Loan.

32. Authorization relating to the Property

The Borrower authorizes all governmental and other authorities having jurisdiction with respect to the Property, to disclose to the Lender or its solicitors all information in their possession with respect to the Property and to undertake any inspections requested by the Lender or its solicitor and agrees to forthwith provide to the Lender any further authorization as may be required for the aforesaid.

**33. Consent to Disclosure**

In the event the Lender sells the Loan or securitizes it into the secondary market, the Borrower and each Additional Covenantor (if applicable) consent to the release by the Lender of all information and materials in the Lender's possession concerning the Borrower, each Additional Covenantor and/or the Property to such party or parties (including the public in any offering memorandum) as may be necessary or desirable to facilitate such sale or securitization. In addition, the Borrower and each Additional Covenantor agrees that the Lender may share any information concerning the Borrower or any Additional Covenantor, as the case may be, with: (a) any proposed assignee of this Commitment or the Loan, (b) the Lender's duly authorized agents or representatives who are engaged in the processing or servicing of the Loan and (c) organizations with which the Lender has strategic alliances who may use such information to provide the Borrower or any Additional Covenantor with information on certain financial products which may be of interest to them. If the Borrower or any Additional Covenantor decides it does not wish its personal information shared with any party referred to in subsection (c) of this Section, it may so advise the Lender in writing at any time and the information will not be so shared.

**34. Additional Covenantors**

The Additional Covenantors, if any, hereby acknowledge and agree that each of them is jointly and severally liable for all covenants and obligations of the Borrower under this Commitment and under the Loan.

**35. Publicity**

On completion of funding, the Lender may, at its option, issue a press release announcing the Loan. During the construction of any improvements, the Lender may require a sign to be erected and maintained by the Borrower evidencing the Lender's financing of same and may place notices thereof in the media.

**36. Non-Merger of Commitment**

Neither the execution, delivery nor the performance of any Security Documents nor the advance of the Loan shall in any way merge or extinguish this Commitment or the terms and conditions contained herein. This Commitment and all its provisions shall continue in full force and effect until the Loan has been repaid in full; provided that, in case of any inconsistency or conflict between any provision or provisions of this Commitment and any provision or provisions of the Security Documents, the Lender may elect which instrument or provision is to prevail.

**37. No Agency**

The Lender is not acting as the Borrower's agent or otherwise in any fiduciary capacity in relation to the Borrower in connection with this Loan.

**38. Assignment**

Neither the Borrower nor any of the Additional Covenantors is permitted to assign any or all of their respective rights and/or obligations pursuant to this Commitment, the Security Documents or any of the Loan proceeds. This Commitment, the Loan and/or the Security Documents may be assigned, in whole or in part, by the Lender at any time before or after the Disbursement Date.

**39. Entire Agreement**

This Commitment and the Schedules attached hereto, when accepted by the Borrower, will constitute the entire agreement and understanding between the parties hereto with respect to the Loan and supercede all other agreements, understandings or commitments, whether oral or written. The terms and conditions of this Commitment shall not be merged by and shall survive the execution of the Security Documents. In the event of a conflict between the terms of this Commitment and the terms of the Security Documents, then the terms of this Commitment shall prevail to the extent of such conflict.

**40. Approvals and Consents**

Any approvals or consents required to be made or given by the Lender hereunder must be expressly given in writing pursuant hereto and shall not be implied or construed by the delivery or receipt of documents.

**41. Amendments and Waivers**

Except as otherwise expressly provided herein, this Commitment cannot be waived, altered, amended, discharged or terminated other than by an agreement in writing signed by the party against whom enforcement of any such waiver, alteration, amendment, discharge or termination is sought.

**42. Communications**

All communications provided for hereunder shall be in writing, personally delivered, sent by prepaid first class mail or sent by electronic transmission, and if to the Lender addressed to the address above-noted to the attention of the Manager, Mortgage Investments and if to the Borrower to the address noted above. The date of receipt of any such communication shall be deemed to be the date of delivery, if delivered as aforesaid, or the third Business Day following the date of mailing, if mailed, as aforesaid. If sent by electronic transmission before 4:00 pm on any Business Day, such communication shall be deemed to have been received on the date sent; if sent after 4:00 pm on any Business Day or if sent on a day which is not a Business Day, such communication shall be deemed to have been received on the next following Business Day. Any party hereto may change its address for service from time to time by notice in the manner herein provided. In the event of a postal disruption or an anticipated postal disruption, prepaid first class mail will not be an acceptable means of communication.

**43. Further Assurances**

The Borrower and each Additional Covenantor shall, at the Lender's request, execute or deliver such further documentation and enter into such other agreements as are necessary for the securing of the Loan and the fulfilling of the terms contained herein.

**44. Time of the Essence**

Time shall be of the essence of this Commitment in all respects.

**45. Enurement**

This Commitment shall be binding upon and enure to the benefit of the parties hereto and their respective transferees, successors and assigns, subject to any limitations contained in the Section entitled "Assignment" above.

**46. Governing Law**

This Commitment and all documentation and security contemplated hereunder shall be governed by and construed in accordance with the laws of the Province in which the Property is situate and the federal laws applicable therein.

**47. Severability**

If any covenant, obligation or agreement contained in this Commitment or the application thereof to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Commitment or the application of such covenant, obligation or agreement to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each covenant, obligation and agreement of this Commitment shall be separately valid and enforceable to the fullest extent permitted by law.

**48. Counterparts**

This Commitment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Counterparts may be executed either in original or faxed form and the parties hereto adopt any signatures received by a receiving fax machine as original signatures of the parties.

**49. Confidentiality**

The Borrower will not disclose or identify the Lender's investor/client, except: (i) as may be required by law or in connection with legal proceedings; (ii) as may be reasonably necessary to complete the transaction or documentation contemplated hereby; or (iii) as required for reporting purposes to officers, directors, shareholders and auditors of the Borrower.



## 50. Interpretation

- (a) The headings of all provisions herein are inserted as a matter of convenience only and not to define the intent of this document. The necessary changes in grammar and gender required to apply to the parties hereto shall be assumed as though expressed.
- (b) If there is more than one Borrower or if there is an Additional Covenantor, or more than one Additional Covenantor, each of the covenants, agreements and obligations herein shall, as between and among each Borrower and each Additional Covenantor, be deemed to be joint and several, except as may otherwise herein specifically be provided, and the term "**Borrower**" shall be read as if each Borrower were specifically named and the term "**Additional Covenantor**" shall be read as if each Additional Covenantor were specifically named and any default by any one Borrower shall be deemed to be a default by each Borrower and any default by any one Additional Covenantor shall be deemed to be a default by each Additional Covenantor.
- (c) "**Business Day**" means a day of the week, other than Saturday, Sunday or any other day which is a statutory or a municipal holiday in the municipality in which the Property is situate.
- (d) "**Person**" includes any individual, partnership, joint venture, trust, unincorporated organization or any other association, corporation and government or any department or agency thereof.
- (e) "**Prime Rate**" means, at any time, the rate of interest quoted by the Royal Bank of Canada as its reference rate of interest in order to determine the interest rate charged for demand loans in Canadian funds to their most creditworthy customers, as the same may be in effect from time to time, and announced from time to time as its "prime rate". Each change in said Prime Rate shall become effective on the same date as the effective date of the change in the Prime Rate.
- (f) The words "**hereto**", "**herein**", "**hereunder**", "**hereof**", "**hereby**", "**this Commitment**", "**this agreement**" and similar expressions used in this Commitment, including the schedules attached hereto, mean or refer to this Commitment as a whole and not to any particular provision, section or paragraph or other portion of this Commitment and include any instrument supplemental or ancillary hereto.

Acceptance of this Commitment shall create a binding agreement between the parties hereto on the terms and conditions set out herein. To accept this Commitment, kindly execute same where indicated below and return it to the Lender together with a cheque in the amount of \$150,000, being the Good Faith Deposit, by no later than 4 p.m. Toronto time on October 27, 2006, at the address noted above.



Failing receipt by the Lender of the executed Commitment together with the Good Faith Deposit by the date and time aforesaid, the offer contained in this Commitment shall be null and void and of no further force and effect unless the Lender shall have otherwise agreed in writing whether before, on or after such date.

Yours truly,

**CARLISLE CAPITAL STRUCTURES CORPORATION**

**Roderick G. Dougherty, President**

Accepted on the 27<sup>th</sup> day of OCTOBER, 2006.

**KINGSWAY ARMS MANAGEMENT SERVICES INC.**

Per: \_\_\_\_\_  
Name:  
Title:

I have the authority to bind the Corporation

**KINGSWAY ARMS HOLDINGS INC.**

Per: \_\_\_\_\_  
Name: PATRICK BYRNE  
Title: PRESIDENT

I have the authority to bind the Corporation

**KINGSWAY ARMS MANAGEMENT HOLDINGS INC.**

Per: \_\_\_\_\_  
Name: PATRICK BYRNE  
Title: PRESIDENT

I have the authority to bind the Corporation

025



**CHAPLIN VENTURES LTD.**

Per: \_\_\_\_\_  
Name:  
Title:

I have the authority to bind the Corporation

**COLTER INVESTMENTS (GP) LTD.**

Per: \_\_\_\_\_  
Name:  
Title:

I have the authority to bind the Corporation

\_\_\_\_\_  
**ALLAN GROSSMAN**

\_\_\_\_\_  
**PATRICK BYRNE**

\_\_\_\_\_  
**GRAHAM PARKER**

**Attachments**

- Schedule 1 – Environmental Provisions
- Schedule 2 – Insurance Requirements
- Schedule 3 – Description of Lands





Failing receipt by the Lender of the executed Commitment together with the Good Faith Deposit by the date and time aforesaid, the offer contained in this Commitment shall be null and void and of no further force and effect unless the Lender shall have otherwise agreed in writing whether before, on or after such date.

Yours truly,

**CARLISLE CAPITAL STRUCTURES CORPORATION**

Roderick G. Dougherty, President

Accepted on the 27<sup>th</sup> day of OCTOBER, 2006.

**KINGSWAY ARMS MANAGEMENT SERVICES INC.**

Per:   
 Name: PATRICK BYRNE  
 Title: PRESIDENT

I have the authority to bind the Corporation

**KINGSWAY ARMS HOLDINGS INC.**

Per:   
 Name: PATRICK BYRNE  
 Title: PRESIDENT

I have the authority to bind the Corporation

**KINGSWAY ARMS MANAGEMENT HOLDINGS INC.**

Per: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

I have the authority to bind the Corporation



**CHAPLIN VENTURES LTD.**

Per:   
Name: **MICHAEL RAYMOND CHAPLIN**  
Title: **PRESIDENT**

I have the authority to bind the Corporation

**COLTER INVESTMENTS (GP) LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

I have the authority to bind the Corporation

\_\_\_\_\_  
**ALLAN GROSSMAN**

\_\_\_\_\_  
**PATRICK BYRNE**

\_\_\_\_\_  
**GRAHAM PARKER**

**Attachments**

- Schedule 1 - Environmental Provisions
- Schedule 2 - Insurance Requirements
- Schedule 3 - Description of Lands




**CHAPLIN VENTURES LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

I have the authority to bind the Corporation

**COLTER INVESTMENTS (GP) LTD.**

Per:  \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: *TERRY LORRUX PRES.*

I have the authority to bind the Corporation

\_\_\_\_\_  
**ALLAN GROSSMAN**

\_\_\_\_\_  
**PATRICK BYRNE**

\_\_\_\_\_  
**GRAHAM PARKER**

**Attachments**

- Schedule 1 - Environmental Provisions
- Schedule 2 - Insurance Requirements
- Schedule 3 - Description of Lands

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**CHAPLIN VENTURES LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

I have the authority to bind the Corporation

**COLTER INVESTMENTS (GP) LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

I have the authority to bind the Corporation

  
ALLAN GROSSMAN

  
PATRICK BYRNE

  
GRAHAM PARKER

**Attachments**

- Schedule 1 – Environmental Provisions
- Schedule 2 – Insurance Requirements
- Schedule 3 – Description of Lands

## SCHEDULE 1

### Definitions

In this Schedule and in the Mortgage the following words shall have the following meanings:

"Applicable Laws" means, in respect of any person, property, transaction or event, all applicable federal, provincial or municipal laws, statutes, regulations, rules, by-laws, policies and guidelines, orders, permits, licences, authorizations, approvals and all applicable common law or equitable principles in force and effect during the currency of this Charge.

"Charge" means the Charge/Mortgage made pursuant to the *Land Title Act* to which the Chargor and the Chargee are parties and any amendments from time to time made hereafter by the Chargor and Chargee in writing in accordance with the provisions therein.

"Chargee" means Carlisle Capital Structures Corporation, or its successor or assignee.

"Chargor" means the borrower described in the agreement to which this schedule is attached.

"Environmental Laws" means all present and future Applicable Laws, standards and requirements relating to environmental or occupational health and safety matters, including those relating to the presence, release, reporting, licensing, permitting, investigation, disposal, storage, use, remediation and clean-up or any other aspect of a Hazardous Substance.

"Environmental Proceeding" means any investigation, action, proceeding, conviction, fine, judgement, notice, order, claim, directive, permit, license, approval, agreement or Lien of any nature or kind arising under or relating to Environmental Laws.

"Hazardous Substances" means any substance or material that is prohibited, controlled, otherwise regulated by any governmental authority or is otherwise hazardous in fact, including without limitation contaminants, pollutants, asbestos, lead, urea formaldehyde foam insulation, polychlorinated by-phenyls or hydrocarbon products, any materials containing same or derivatives thereof, explosives, radioactive substances, petroleum and associated products, underground storage tanks, dangerous or toxic substances or materials, controlled products, and hazardous wastes.

### Representations Regarding Environmental Matters

The Chargor represents and warrants, which representations and warranties shall be deemed to be continually repeated until all of the obligations pursuant to the Commitment, the Charge and the Security Documents have been repaid and/or performed in full and the Loan has been terminated, and covenants that:

- (a) the Property and all businesses and operations conducted thereon comply with all Environmental Laws;
- (b) the Property has not been used for or designated as a waste disposal site and, except as disclosed in the environmental audit provided to the Chargee prior to the advance of

(B)

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- funds under this Charge (the "Environmental Audit"), the Property contains no Hazardous Substances and there is no existing or threatened Environmental Proceeding against or affecting the Property;
- (c) copies of all existing environmental assessments, audits, tests and reports relating to the Property have been delivered to the Chargee;
  - (d) to the best of the Chargor's knowledge and belief, there are no pending or proposed changes to Environmental Laws or to any Environmental Proceedings, which would render illegal or materially restrict or change the present use and operation of the Property; and
  - (e) except as disclosed in the Environmental Audit, neither of the Chargor nor, to the best of the Chargor's knowledge and belief after due inquiry and investigation, any other person or organization: (i) has used or permitted the use of the Property to generate, manufacture, refine, treat, transport, store, handle, dispose, transfer, produce or process Hazardous Substances; (ii) has been subject to any Environmental Proceeding related to the Property; (iii) has caused or permitted the release or discharge of any Hazardous Substance on or in the vicinity of the Property; (iv) has received or otherwise has knowledge of any Environmental Proceedings or of any facts which could give rise to any Environmental Proceeding related to the Property; (v) has undertaken any remediation or clean-up of any Hazardous Substance on or in the vicinity of the Property; or (vi) has defaulted in reporting any occurrence or circumstance to any governmental authority in relation to the Property which is or was required to be reported pursuant to any Environmental Laws.

#### Additional Covenants Regarding Environmental Matters

The Chargor shall: (i) comply and shall ensure that the Property complies with all Environmental Laws at all times; (ii) not permit any Hazardous Substance to be located, manufactured, stored, spilled, discharged or disposed of at, on or under the Property (except in the ordinary course of business of the Chargor or any tenant and in compliance with all Environmental Laws) nor shall the Chargor permit any other activity on or in respect of the Property that might result in any Environmental Proceeding affecting the Property, Chargor or Chargee; (iii) notify the Chargee promptly of any threatened or actual Environmental Proceedings; (iv) remediate and cure, in a timely manner, any non-compliance by the Property or the Chargor with Environmental Laws, including, without limitation, removal of any Hazardous Substances from the Property; (v) maintain all environmental and operating documents and records including, without limitation, all permits, licenses, certificates, approvals, orders and agreements relating to the Property as required by Environmental Laws; (vi) provide the Chargee promptly upon request with such information, documents, records, permits, licences, certificates, approvals, orders, agreements, environmental audits, reports, assessments and inspections and take such other steps (all at the Chargor's expense) as may be required by the Chargee to confirm and/or ensure compliance by the Property and the Chargor with Environmental Laws, and (vii) execute all consents, authorizations and directions necessary to permit any inspection of the Property by any governmental authority and to permit the release to the Chargee or its representatives, of any

- 3 -

information relating to the Property and the Chargor, as the Chargee may request from time to time.

**Environmental Indemnity**

Without limiting any other provision of this Charge, the Commitment, the Security Documents or any documents collateral hereto and thereto, the Chargor shall indemnify and pay, protect, defend and save the Chargee harmless from and against all actions, proceedings, losses, damages, liabilities, claims, demands, judgments, costs, expenses, (including legal fees and disbursements on a solicitor and his own client basis) (collectively "Environmental Claims"), imposed on, made against or incurred by the Chargee arising from or relating to, directly or indirectly, and whether or not disclosed by the Environmental Audit and whether or not caused by the Chargor or within its control, (i) any actual or alleged breach of Environmental Laws relating to or affecting the Property, (ii) the actual or alleged presence, release, discharge or disposition of any Hazardous Substance in, on, over, under, from or affecting all or part of the Property or surrounding lands, including, without limitation, any personal injury or property damage arising therefrom, (iii) any actual or threatened Environmental Proceeding affecting the Property including any settlement thereof, (iv) any assessment, investigation, containment, monitoring, remediation and/or removal of Hazardous Substances from all or any part of the Property or surrounding areas or otherwise complying with Environmental Laws, or (v) any breach by the Chargor of any covenant hereunder, under the Commitment, under the Security Documents or under any document collateral hereto or thereto or under Applicable Law relating to environmental matters. This indemnity shall survive repayment of the Loan secured hereby, foreclosure upon this Charge and any other extinguishing of the obligations of the Chargor under this Charge and any other exercise by the Chargee of any remedies available to it against the Chargor.

**SCHEDULE 2****Insurance Requirements**

The Borrower will at all times during the Term maintain the insurance required by the Mortgage including, without limitation the following coverages:

- (a) all risks of direct physical loss or damage, including, without limitation, builder's risk coverage, coverage for the foundations of all improvements and flood and earthquake coverage, all on a replacement cost basis with loss payable to the Lender under an Insurance Bureau of Canada mortgage clause; the policy should allow for the improvements on the Property to be completed (if applicable), for partial occupancy, and for the Property to be vacant and unoccupied for a period of at least 30 days;
- (b) comprehensive broad form boiler and machinery insurance covering all pressure vessels (whether fired or unfired), air conditioning and miscellaneous electrical apparatus on the Property, for an amount satisfactory to the Lender, with loss payable to the Lender under a Boiler and Machinery Insurance Association mortgage clause;
- (c) business interruption or rental income loss coverage on a gross profits or rentals form sufficient to cover 100% of the loss of rent or loss of business income from the business conducted on the Property for a period of twelve (12) months, based on the greater of actual or projected revenue, in respect of all perils described in (a) and (b) above; and
- (d) comprehensive general liability insurance, inclusive of bodily injury, death or property damage or loss, for a minimum amount of \$5,000,000 per occurrence or such other amount as the Lender may reasonably request.

The coverage required by sections (a) and (b) above shall include by-law endorsements acceptable to the Lender, including but not limited to same site waiver, increased cost of construction, undamaged portion coverage and demolition and debris coverage.

All policies shall be on a "no co-insurance" basis. All such insurance shall be placed with a company or companies satisfactory to the Lender. Deductible amounts shall also be subject to Lender's approval. All cancellations and alteration clauses in the above-referenced policies, including those obtained in the mortgage clause endorsements, shall provide for at least thirty (30) days prior written notice to the Lender of any cancellation of or material alteration to the policy. The Borrower shall provide evidence of policy renewal or satisfactory replacement annually at least thirty (30) days prior to expiry. The Borrower shall deliver to the Lender original or certified copies of all policies required hereunder. The Lender shall be entitled to require coverage of such other risks and perils as the Lender may from time to time consider advisable or desirable and in respect of which insurance coverage is available.



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**SCHEDULE 3**

***Legal Description***

**LOT A, SECTION 20, TOWNSHIP 17, NEW WESTMINSTER DISTRICT PLAN  
LMP1741, BRITISH COLUMBIA (MUNICIPALLY KNOWN AS 32331 7TH AVENUE,  
MISSION, BC, CANADA)**



# **ASSIGNMENT OF COMMITMENT LETTER**

In consideration of \$2.00 (TWO DOLLARS), the receipt of which is hereby acknowledged, Carlisle Capital Structures Corporation ("Carlisle") hereby assigns to 1397225 Ontario Limited (the "Assignee") all of Carlisle's interest in and to a commitment letter (the "Commitment Letter") dated October 24, 2006, as amended, modified and restated from time to time between Carlisle and 682202 B.C. LTD. (the "Borrower") and Kingsway Arms Management Services Inc., Kingsway Arms Holdings Inc., Chaplin Ventures (GP) Ltd., Patrick Byrne, Graham Parker, Kingsway Arms Holdings B.C. Ltd., Colter Investments LP and 0780293 B.C. Ltd. (collectively, the "Covenantors") with respect to financing a project referred to as "Ceadarbrooke Chateau" located at 32331 7<sup>th</sup> Avenue, in the Municipality of Mission, in the Province of British Columbia, including all rights of action or other rights accruing to the undersigned, or which might after this assignment takes effect accrue to Carlisle under the Commitment Letter and the Assignee covenants and agrees to be bound by the terms of the Commitment Letter and perform the obligations contained in the Commitment Letter in the same manner as if the Assignee had been an original party thereto and to the same extent as Carlisle.

DATED the \_\_\_\_ day of \_\_\_\_\_, 2006.

## **CARLISLE CAPITAL STRUCTURES CORPORATION**

Per: 

Name:

Title:

Acknowledged and Accepted this \_\_\_\_ day of \_\_\_\_\_, 2006:

## **1397225 ONTARIO LIMITED**

Per: 

Name:

Title:

Acknowledged and Accepted by the Borrower and Covenantors this \_\_\_\_ day of \_\_\_\_\_, 2006:

## **682202 B.C. LTD.**

Per: \_\_\_\_\_

Name:

Title:

## **KINGSWAY ARMS MANAGEMENT SERVICES INC.**

Per: \_\_\_\_\_

Name:

Title:

# **ASSIGNMENT OF COMMITMENT LETTER**

In consideration of \$2.00 (TWO DOLLARS), the receipt of which is hereby acknowledged, Carlisle Capital Structures Corporation ("Carlisle") hereby assigns to 1397225 Ontario Limited (the "Assignee") all of Carlisle's interest in and to a commitment letter (the "Commitment Letter") dated October 24, 2006, as amended, modified and restated from time to time between Carlisle and 682202 B.C. LTD. (the "Borrower") and Kingsway Arms Management Services Inc., Kingsway Arms Holdings Inc., Chaplin Ventures (GP) Ltd., Patrick Byrne, Graham Parker, Kingsway Arms Holdings B.C. Ltd., Colter Investments LP, 308810 B.C. Ltd. and ~~Michael Chaplin~~ (collectively, the "Covenantors") with respect to financing a project referred to as "Cedarbrooke Chateau" located at 32331 7<sup>th</sup> Avenue, in the Municipality of Mission, in the Province of British Columbia, including all rights of action or other rights accruing to the undersigned, or which might after this assignment takes effect accrue to Carlisle under the Commitment Letter and the Assignee covenants and agrees to be bound by the terms of the Commitment Letter and perform the obligations contained in the Commitment Letter in the same manner as if the Assignee had been an original party thereto and to the same extent as Carlisle.

DATED the \_\_\_\_ day of \_\_\_\_\_, 2006.

## **CARLISLE CAPITAL STRUCTURES CORPORATION**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_


Acknowledged and Accepted this \_\_\_\_ day of \_\_\_\_\_, 2006:

## **1397225 ONTARIO LIMITED**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledged and Accepted by the Borrower and Covenantors this 19 day of January, 2006:

## **682202 B.C. LTD.**

Per:   
Name: MICHAEL CHAPLIN  
Title: \_\_\_\_\_

## **KINGSWAY ARMS MANAGEMENT SERVICES INC.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

# **ASSIGNMENT OF COMMITMENT LETTER**

In consideration of \$2.00 (TWO DOLLARS), the receipt of which is hereby acknowledged, Carlisle Capital Structures Corporation ("Carlisle") hereby assigns to 1397225 Ontario Limited, (the "Assignee") all of Carlisle's interest in and to a commitment letter (the "Commitment Letter") dated October 24, 2006, as amended, modified and restated from time to time between Carlisle and 682202 B.C. LTD. (the "Borrower") and Kingsway Arms Management Services Inc., Kingsway Arms Holdings Inc., Chaplin Ventures (GP) Ltd., Patrick Byrne, Graham Parker, Kingsway Arms Holdings B.C. Ltd., Colter Investments LP, 398810 B.C. Ltd. and Michael Chaplin (collectively, the "Covenantors") with respect to financing a project referred to as "Cedarbrooke Chateau" located at 32331 7<sup>th</sup> Avenue, in the Municipality of Mission, in the Province of British Columbia, including all rights of action or other rights accruing to the undersigned, or which might after this assignment takes effect accrue to Carlisle under the Commitment Letter and the Assignee covenants and agrees to be bound by the terms of the Commitment Letter and perform the obligations contained in the Commitment Letter in the same manner as if the Assignee had been an original party thereto and to the same extent as Carlisle.

DATED the \_\_\_\_ day of \_\_\_\_\_, 2006.

## **CARLISLE CAPITAL STRUCTURES CORPORATION**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledged and Accepted this \_\_\_\_ day of \_\_\_\_\_, 2006:

## **1397225 ONTARIO LIMITED**


Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledged and Accepted by the Borrower and Covenantors this \_\_\_\_ day of \_\_\_\_\_, 2006:

## **682202 B.C. LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## **KINGSWAY ARMS MANAGEMENT SERVICES INC.**

Per:   
Name: PATRICK BYRNE  
Title: PRESIDENT

## KINGSWAY ARMS HOLDINGS INC.

Per: Name: PATRICK BYRNETitle: PRESIDENT

## CHAPLIN VENTURES LTD.

Per: \_\_\_\_\_

Name: \_\_\_\_\_

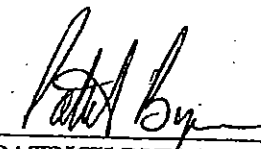
Title: \_\_\_\_\_

## COLTER INVESTMENTS (GP) LTD.

Per: \_\_\_\_\_

Name: \_\_\_\_\_


Title: \_\_\_\_\_

  
\_\_\_\_\_  
PATRICK BYRNE  
\_\_\_\_\_  
GRAHAM PARKER

**KINGSWAY ARMS HOLDINGS INC.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CHAPLIN VENTURES LTD.**

Per:   
Name: MICHAEL CHAPLIN  
Title: \_\_\_\_\_

**COLTER INVESTMENTS (GP) LTD.**

Per:   
Name: KELLY LEROUX  
Title: \_\_\_\_\_

\_\_\_\_\_  
PATRICK BYRNE

\_\_\_\_\_  
GRAHAM PARKER

**KINGSWAY ARMS HOLDINGS B.C. LTD.**Per: Name: PATRICK BYRNETitle: PRESIDENT**398810 B.C. LTD.**Per: 

Name: \_\_\_\_\_


Title: \_\_\_\_\_

**COLTER INVESTMENTS LP**

Per: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

  
MICHAEL CHAPLIN

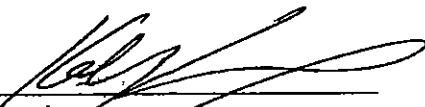
**KINGSWAY ARMS HOLDINGS B.C. LTD.**


Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**398810 B.C. LTD.**

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**COLTER INVESTMENTS LP**

Per:   
Name: KELLY LEROUX  
Title: \_\_\_\_\_

  
MICHAEL CHAPLIN



0780293 B.C. LTD.

Per: 

Name: DENNIS BIGGAM

Title: PRESIDENT