

KINGSWAY FINANCIAL SERVICES INC
Form PRE 14A
May 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant o
Check the appropriate box:
 [X] Preliminary Proxy Statement
 o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 o Definitive Proxy Statement
 o Definitive Additional Materials
 o Soliciting Material under Rule 14a-12

KINGSWAY FINANCIAL SERVICES INC.

(Name of the Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF SPECIAL MEETING OF SERIES B WARRANTHOLDERS OF
KINGSWAY FINANCIAL SERVICES INC.
MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT
FOR THE MEETING TO BE HELD ON JULY 8, 2014

June 2, 2014

June 2, 2014

Dear Series B Warrantholder:

Re: Amendment to the Series B Warrant Agreement

You are invited to attend a meeting (the "Meeting") of the holders of Series B warrants (the "Series B Warrants") of Kingsway Financial Services Inc. ("Kingsway") to be held at 10:00 a.m. (Toronto Time) on July 8, 2014 at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4. At the Meeting, you will be asked to consider amendments (the "Series B Warrant Agreement Amendments") to the terms of the Series B Warrant Agreement dated September 16, 2013 between Kingsway and Computershare Trust Company of Canada (the "Series B Warrant Agreement") under which the Series B Warrants were issued.

The Series B Warrant Agreement Amendments will authorize Kingsway to, among other things, (i) issue an additional 1,642,975 Series B Warrants; (ii) enter into one or more supplemental warrant agreements with the Warrant Agent for the purpose of effecting certain types of amendments to the Series B Warrant Agreement in the future as described more fully in the attached management information circular (the "Circular"); and (iii) amend the Series B Warrant Agreement and warrant certificates from time to time for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions contained therein.

The Series B Warrant Agreement Amendments must be approved by an extraordinary resolution, which requires an affirmative vote of not less than 66 % of the votes cast at the Meeting. Each Warrantholder present in person or proxy at the Meeting shall be entitled to one vote in respect of each Series B Warrant held by such holder. Regardless of the number of Series B Warrants that you own, your vote is very important. Whether or not you plan to attend the Meeting, please submit your proxy as soon as possible to ensure that your Series B Warrants are represented at the Meeting. If the Series B Warrant Agreement Amendments are approved, then Kingsway and the Warrant Agent will enter into the Amended and Restated Series B Warrant Agreement (in the form set out in Schedule "B" of the Circular) incorporating all the Series B Warrant Agreement Amendments as described in the Circular.

The accompanying Circular provides specific information regarding the Meeting and the extraordinary resolution to be considered by the holders of the Series B Warrants. Based on the considerations described in the Circular, the directors of Kingsway recommend that you vote in favour of the extraordinary resolution to approve the Series B Warrant Agreement Amendments.

On behalf of the board of directors and management of Kingsway, I would like to thank you for your continued support.

Yours sincerely,

"Larry G. Swets, Jr."

Larry G. Swets, Jr.

President and Chief Executive Officer

NOTICE OF MEETING OF WARRANTHOLDERS

NOTICE IS HEREBY GIVEN that a meeting (the "Meeting") of the holders (the "Warrantholders") of Series B warrants (the "Series B Warrants") of Kingsway Financial Services Inc. ("Kingsway") issued and outstanding under the Series B Warrant Agreement (the "Series B Warrant Agreement") dated September 16, 2013 between Kingsway and Computershare Trust Company of Canada will be held at 10:00 a.m. (Toronto time) on July 8, 2014 at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, for the following purposes:

to consider and, if deemed appropriate, pass, with or without amendment, an extraordinary resolution (the "Extraordinary Resolution"), in the form attached as Schedule "A" to the management information circular (the "Circular")
1 accompanying this Notice of Meeting, approving certain amendments to the Series B Warrant Agreement and authorizing Kingsway and Computershare to execute the amended and restated warrant agreement embodying such amendments, which shall be substantially in the form attached as Schedule "B" to the Circular, all as more particularly described in the Circular; and

2 to transact such other business as may be properly brought before the Meeting and any and all adjournments thereof. The specific details of the matters proposed to be put before the Meeting are set forth in the Circular.

The Extraordinary Resolution, if passed by the holders of at least $66 \frac{2}{3} \%$ of the Warrantholders present in person or by proxy at the Meeting, or any adjournment thereof, in accordance with the provisions of the Series B Warrant Agreement, will be binding upon all Warrantholders. Accordingly, it is important that your Series B Warrants be represented and voted whether or not you plan to attend the Meeting in person.

The board of directors of Kingsway has established the record date for the Meeting as the close of business on May 21, 2014 (the "Record Date"). Only Warrantholders of record at the close of business on the Record Date will be entitled to notice of the Meeting or any adjournment thereof, and to vote at the Meeting. No Warrantholder becoming a Warrantholder of record after such time will be entitled to vote at the Meeting or any adjournment thereof. The quorum requirements of the Series B Warrant Agreement will be satisfied by the presence in person or by proxy of Warrantholders representing 25% of the aggregate number of Series B Warrants then outstanding.

If you are unable to attend the Meeting in person, we request that you date and sign the enclosed form of proxy and mail it or deposit it with Computershare Trust Company of Canada, Proxy Department, 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1. In order to be valid and acted upon at the Meeting, forms of proxy must be returned to the aforesaid address not less than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the Meeting or any adjournment thereof.

BY ORDER OF THE BOARD OF DIRECTORS

"Terence Kavanagh"

Terence Kavanagh

Chairman of the Board of Directors

Toronto, Ontario

June 2, 2014

MANAGEMENT INFORMATION CIRCULAR
TABLE OF CONTENTS

SOLICITATION OF PROXIES	<u>1</u>
FORWARD-LOOKING INFORMATION	<u>1</u>
QUORUM	<u>2</u>
VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF	<u>2</u>
Series B Warrants and the Principal Holders of Series B Warrants	<u>2</u>
Q&A ON PROXY VOTING	<u>2</u>
Dissenter's Appraisal Rights	<u>6</u>
BACKGROUND AND REASONS FOR THE SERIES B WARRANT AGREEMENT	<u>6</u>
AMENDMENTS	<u>6</u>
SERIES C WARRANT EXCHANGE	<u>6</u>
THE SERIES B WARRANT AGREEMENT AMENDMENTS	<u>7</u>
General	<u>7</u>
Warrantholder Approval	<u>8</u>
TSX Approval	<u>8</u>
RECOMMENDATION OF THE BOARD	<u>8</u>
INTERESTS OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON	<u>8</u>
OTHER BUSINESS	<u>9</u>
WARRANT AGENT	<u>9</u>
ADDITIONAL INFORMATION	<u>10</u>
DIRECTORS' APPROVAL	<u>11</u>

GENERAL PROXY INFORMATION

SOLICITATION OF PROXIES

This management information circular and proxy statement (the "Circular") is furnished in connection with the solicitation of proxies by or on behalf of the management of Kingsway Financial Services Inc. (the "Corporation," "Kingsway," "us," or "we") at the meeting ("Meeting") of holders (the "Warrantholders") of the series B warrants of Kingsway (the "Series B Warrants") issued pursuant to the Series B Warrant Agreement (the "Series B Warrant Agreement") dated September 16, 2013 between Kingsway and Computershare Trust Company of Canada (the "Warrant Agent") which will be held at 10:00 a.m. (Toronto Time) on July 8, 2014 at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, or any adjournment or postponement thereof, for the purposes set out in the accompanying notice of meeting (the "Notice of Meeting"). The form of proxy and this Circular are being sent to Warrantholders on or about June 6, 2014.

The solicitations will be made primarily by mail, but proxies may also be solicited personally or by telephone by directors, officers and regular employees of the Corporation, none of whom will receive additional compensation for assisting with the solicitation, and the estimated cost of which will be nominal. The expenses of soliciting proxies, including the cost of preparing, assembling and mailing of this Circular and proxy material to Warrantholders, will be borne by the Corporation.

All of the dollar amounts in this Circular are expressed in U.S. dollars, except where otherwise indicated. References to "dollars" or "\$" are to U.S. dollars, and any references to "CAD\$" are to Canadian dollars.

FORWARD-LOOKING INFORMATION

From time to time, Kingsway makes written and oral forward-looking statements and otherwise provides forward-looking information within the meaning of applicable Canadian securities laws (collectively, "forward-looking information"), including certain forward-looking information contained in this Circular. Forward-looking information is typically identified by future or conditional verbs such as "will", "should", "would" and "could" or words such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import. The forward-looking information in the Circular includes references to, but is not limited to: the approval of the Extraordinary Resolution by Warrantholders at the Meeting; the entering into of the Amended and Restated Series B Warrant Agreement; the receipt of required regulatory approvals, including the approval of the Toronto Stock Exchange (the "TSX"); and the Series C Warrant Exchange (as defined herein). By its very nature, forward-looking information involves numerous assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Kingsway's predictions, forecasts, projections, expectations and conclusions will not prove to be accurate, that its assumptions may not be correct and that its strategic goals will not be achieved.

A variety of factors, many of which are beyond Kingsway's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to: that the Warrantholders may not approve the Extraordinary Resolution at the Meeting; that Kingsway may not be able to obtain required regulatory approvals in respect of the Series B Warrant Agreement Amendments (as defined herein); It is important to note that the preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully, and readers are cautioned not to place undue reliance on such forward-looking information as a number of important factors could cause events and Kingsway's actual results to differ materially from the expectations expressed in such forward-looking information. Unless required by securities law, Kingsway does not undertake to update any forward-looking information, whether written or verbal, that may be made from time to time by it or on its behalf.

The forward-looking information contained in this Circular is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

QUORUM

Pursuant to the Series B Warrant Agreement, the quorum for the Meeting consists of Warrantheolders present in person or by proxy holding in the aggregate not less than 25% of the aggregate number of Series B Warrants then outstanding.

Pursuant to the Series B Warrant Agreement, if a quorum is not present within 30 minutes after the time appointed for the Meeting, the Meeting shall stand adjourned until a date, not less than five business days or more than 10 business days following the original date of the Meeting, and to such place and time, as is appointed by the chairman of the Meeting. Warrantheolders shall be given no less than three business days' notice of the time and place of any adjourned Meeting. At the adjourned meeting, two Warrantheolders present in person or by proxy shall form a quorum and may transact any business for which the Meeting was originally convened, notwithstanding that the Warrantheolders present in person or by Proxy at the adjourned Meeting may hold in aggregate less than 25% of the total number of Warrants outstanding.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Kingsway is authorized to issue 3,287,242 Series B Warrants. As of the close of business on May 21, 2014, the record date for the Meeting (the "Record Date"), there were 3,280,790 Series B Warrants issued and outstanding. The Series B Warrants are listed on the TSX under the symbol "KFS.WT.V".

Series B Warrants and the Principal Holders of Series B Warrants

Warrantheolders as at the close of business on May 21, 2014 are entitled to vote in respect of the Extraordinary Resolution. Each Warrantheolder present in person or proxy at the Meeting shall be entitled to one vote in respect of each Series B Warrant held by such holder.

As of the date of this Circular there were 3,280,790 issued and outstanding Series B Warrants. To the knowledge of the directors and officers of Kingsway, as of the date hereof, no other person owns, directly or indirectly, or exercises control or direction over Series B Warrants carrying more than 10% of the votes attached to the Series B Warrants that may be voted at the Meeting other than as set out in the table below:

Name	Total Number of Series B Warrants Held	Percentage of Series B Warrants
Oakmont Capital Inc. ⁽¹⁾ 45 St. Clair Avenue West, Suite 400 Toronto, ON M4V 1 K9	381,250	11.6%
Joseph Stilwell 45 St. Clair West, Suite 400 Toronto, ON M4V 1K9	626,203	19.09%

(1) Controlled by Gregory Hannon and Terence Kavanagh (each a director of Kingsway).

Q&A ON PROXY VOTING

Q: What am I voting on?

A: Warrantheolders are voting on the Extraordinary Resolution, in the form attached as Schedule "A" to the Circular.

Q: Who is entitled to vote?

Warrantheolders as of the close of business on the Record Date are entitled to vote. Each Series B Warrant is entitled A: to one (1) vote on those items of business identified in the Notice of Meeting. The form of proxy you received indicates the number of Series B Warrants that you own and are entitled to vote.

Q: Who can I call with questions?

A: If you have questions about the information contained in this Circular or require assistance in completing your form of proxy, please call Computershare Trust Company of Canada at 1-800-564-6253 (within Canada and the United States) and (514) 982-7555 all other countries.

Q: How do I vote?

A: If you are a registered Warrantholder there are a number of ways you can vote your Series B Warrants:

In Person: You may vote in person at the Meeting.

By Mail: You may sign the enclosed form of proxy appointing the named persons or some other person you choose, who need not be a Warrantholder, to represent you as proxyholder and vote your Series B Warrants at the Meeting.

By Telephone: You may vote your Series B Warrants by telephone. Warrantholders located in Canada or in the United States may vote by telephone by following the instructions on the form of proxy.

By Internet: You may vote over the Internet by following the instructions on the form of proxy.

Voting by telephone or on the Internet is fast, convenient and your vote is immediately confirmed and tabulated. If you choose to vote by telephone or on the Internet, instructions to do so are set forth on the form of proxy. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a control number, which appears on the form of proxy. These procedures allow Warrantholders to appoint a proxy to vote their Series B Warrants and to confirm that their instructions have been properly recorded. If you vote by telephone you will not be able to appoint a proxyholder. If you vote by telephone or on the Internet, your vote must be received by 5:00 p.m. (Toronto Time), on July 4, 2014.

Q: What if I plan to attend the Meeting and vote in person?

A: If you are a registered Warrantholder and plan to attend the Meeting and wish to vote your Series B Warrants in person at the Meeting, do not complete or return the form of proxy. When you arrive to vote in person at the Meeting, please register with the Warrant Agent and your vote will be counted in person. If your Series B Warrants are held in the name of a nominee and you wish to attend the Meeting, refer to the answer to the question "If my Series B Warrants are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my Series B Warrants?" for voting instructions.

Q: Who is soliciting my proxy?

A: Your proxy is being solicited by or on behalf of management and the Board of the Corporation and the associated costs will be borne by the Corporation. The solicitation will be made primarily by mail, but may also be made in writing or in person by the employees of the Corporation.

Q: What happens if I sign the form of proxy enclosed with this Circular?

A: Signing the enclosed form of proxy gives authority to Hassan Baqar, VP Finance, or failing him, Andrea Brewer of Norton Rose Fulbright Canada LLP, respectively, or to another person you have appointed, to vote your Series B Warrants at the Meeting.

Q: Can I appoint someone other than these representatives to vote my Series B Warrants?

A: Yes. Write the name of this person, who need not be a Warrantholder, in the blank space provided in the form of proxy. It is important to ensure that any other person you appoint is attending the Meeting and is aware that he or she has been appointed to vote your Series B Warrants. Proxyholders should, upon arrival at the Meeting, present themselves to a representative of Computershare Trust Company of Canada.

Q: What do I do with my completed proxy?

Return it to the Warrant Agent, Computershare Trust Company of Canada, in the envelope provided or at Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1. Your form of proxy must be received by the Warrant Agent by no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time and the date of the Meeting, or in the case of any adjournment or postponement, no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time and the date at which the Meeting is reconvened. This will ensure that your vote is recorded. The proxy voting cut-off may be waived or extended by the Chairman of the Board at his discretion without notice.

Q: How will my Series B Warrants be voted if I give my proxy?

On the form of proxy, you can indicate how you want your proxyholder to vote your Series B Warrants, or you can let your proxyholder decide for you. Your proxyholder must vote in favour or against the Extraordinary Resolution A: in accordance with your instructions on any ballot that may be called for, and if you have specified on the form of proxy how you want your Series B Warrants to be voted to be acted upon, your Series B Warrants will be voted accordingly.

If you have not specified on the form of proxy how you want your Series B Warrants to be voted on, then your proxyholder can vote your Series B Warrants as he or she sees fit in accordance with his or her best judgment. In the absence of such directions, however, the management nominees will vote your Series B Warrants in favour of the Extraordinary Resolution.

Q: If I change my mind, can I revoke or change my proxy once I have given it?

A: Yes. You may revoke your proxy and change your vote at any time before the Meeting in one of four ways:
Send a written notice that is received by the deadline specified below stating that you revoke your proxy to Kingsway's Chief Financial Officer at the following address: 45 St. Clair Avenue West, Suite 400, Toronto, Ontario
(i) M4V 1K9 Canada. The statement must be signed by you or your attorney as authorized in writing or, if the Warrantholder is a corporation, signed under its corporate seal or by a duly authorized officer or attorney of the corporation;
(ii) If you sent a form of proxy by mail, complete a new form of proxy bearing a later date and properly submit it so that it is received according to the deadline below;
Log onto the Internet website specified on the form of proxy in the same manner you would to submit your proxy
(iii) electronically or call the toll-free number specified on the form of proxy prior to the Meeting, in each case if you are eligible to do so and following the instructions on the form of proxy; or
(iv) Appear in person at the Meeting, declare your prior proxy to be revoked and then vote in person at the Meeting (although merely attending the Meeting will not revoke your proxy).

Any revocation of a proxy must be delivered either to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment or postponement of the meeting, or to the Chairman of the Board on the day of the Meeting, July 8, 2014, or any adjournment or postponement of the Meeting, prior to the time of the Meeting.

Q: What if amendments are made to this matter or if other matters are brought before the Meeting?

The persons named in the form of proxy will have discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before A: the Meeting or any adjournment or postponement thereof, whether or not the amendment, variation or other matter that comes before the Meeting is or is not routine, and whether or not the amendment, variation or other matter that comes before the Meeting is contested.

As of the date of this Circular, management of the Corporation knows of no such amendment, variation or other matter expected to come before the Meeting. If any other matters properly come before the Meeting, the persons named in the form of proxy will vote on them in accordance with their best judgment.

Q: How many Series B Warrants are entitled to vote?

A: As of the Record Date, there were 3,280,790 Series B Warrants outstanding. Each Warrantholder present in person or proxy shall be entitled to one vote in respect of each Series B Warrant held by such holder.

Q: How will the votes be counted?

In order for the Extraordinary Resolution to be passed by Warrantholders, it must be approved by the affirmative votes of Warrantholders who hold in the aggregate not less than 66 % of the aggregate number of Series B Warrants represented at the Meeting (and voted on the Extraordinary Resolution). Abstentions from voting and broker non-votes will not be counted and will have no effect on the approval of matters to be considered at the Meeting.

No holders of any Series B Warrants are entitled to cumulative voting rights. A “broker non-vote” occurs when a broker does not vote on a matter on the form of proxy because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Q: Who counts the votes?

A: The Warrant Agent counts and tabulates the proxies.

Q: If I need to contact the Warrant Agent, how do I reach them?

A: You can contact the Warrant Agent as follows:

by mail:

Computershare Trust Company of Canada
Proxy Department
100 University Avenue, 8th Floor
Toronto, Ontario, M5J 2Y1

by telephone or email:

within Canada and the United States at 1-800-564-6253
all other countries (514) 982-7555
or by email: service@computershare.com

Q: If my Series B Warrants are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my Series B Warrants?

A: Generally, your Series B Warrants may be voted in one of two ways:

You will have received this Circular directly or from your nominee, together with a request for voting instructions (i) for the number of Shares you hold. If you do not plan on attending the Meeting, or do not otherwise wish to vote in person at the Meeting, please follow the voting instructions provided by your nominee.

If you wish to attend and vote your Series B Warrants at the Meeting, the Corporation will have no record of your warrantholdings or of your entitlement to vote unless your nominee has appointed you as proxyholder. Therefore, if you wish to vote in person at the Meeting, insert your own name in the space provided on the voting instruction form sent to you by your nominee. Then sign and return the voting instruction form by following the signing and returning instructions provided by your nominee. By doing so, you are instructing your nominee to appoint you as proxyholder. Do not otherwise complete the voting instruction form as your vote will be taken at the Meeting.

Please register with the Computershare Trust Company of Canada, upon arrival at the Meeting.

In any event, Warrantholders must explicitly follow any instructions provided by their nominee.

Q: How can I obtain additional information about Kingsway?

Financial information about Kingsway is contained in its consolidated financial statements and Management's Discussion and Analysis for fiscal year ended December 31, 2013, and additional information relating to Kingsway is on SEDAR at www.sedar.com. Kingsway may be contacted as follows:

Kingsway Financial Services Inc.
45 St. Clair Avenue West, Suite 400,
Toronto, ON M4V 1K9
Attention: Investor Relations

Dissenter's Appraisal Rights

There are no dissenter's appraisal rights in connection with the Meeting.

BACKGROUND AND REASONS FOR THE SERIES B WARRANT AGREEMENT AMENDMENTS

The Series B Warrant Agreement was initially entered into September 16, 2013. Management and the Board of Directors of Kingsway (the "Board") believe that the Series B Warrant Agreement Amendments would, if approved by the Warrantheolders, provide the following advantages:

Flexibility to Issue Additional Series B Warrants: The Series B Warrant Agreement currently limits the number of Series B Warrants that may be issued thereunder to 3,287,242 Series B Warrants. The Series B Warrant Agreement Amendments would permit Kingsway to issue up to 1,642,975 additional Series B Warrants and complete the Series C Warrant Exchange (see "Series C Warrant Exchange" below).

Flexibility to Amend the Warrant Agreement and Warrant Certificates: The Series B Warrant Agreement Amendments provide greater flexibility to Kingsway and the Warrant Agent to amend the Warrant Agreement and Warrant Certificates from time to time for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions contained therein.

Updating of Administrative Matters: The Amended and Restated Series B Warrant Agreement would incorporate certain amendments of an administrative or "housekeeping" nature.

The Board therefore determined that it would be in the best interests of Kingsway and the Warrantheolders to call the Meeting for the purpose of approving the Series B Warrant Agreement Amendments in order to enter into the Amended and Restated Series B Warrant Agreement.

SERIES C WARRANT EXCHANGE

Kingsway closed a private placement for gross proceeds of approximately \$6.6 million on February 3, 2014, resulting from the sale and issuance of approximately 262,876 units. Each unit consisted of one class A convertible preferred share, series 1 and 6.25 common share class C purchase warrants (each a "Series C Warrant"). The Series C Warrants were issued pursuant to a warrant agreement dated February 3, 2014 between Kingsway and the Warrant Agent (the "Series C Warrant Agreement"). Pursuant to the Series C Warrant Agreement, the Company is authorized to issue an unlimited number of Series C Warrants. As of the date of this Circular, there are 1,642,975 Series C Warrants outstanding. The Series C Warrants are not currently listed on the TSX, however, the form and terms of the Series C Warrants are identical in all material respects to the form and terms of the Series B Warrants.

If the Extraordinary Resolution is approved and (i) Kingsway and the Warrant Agent enter into the Amended and Restated Series B Warrant Agreement; and (ii) the TSX accepts the listing of the 1,642,975 additional Series B Warrants authorized for issuance thereunder, each Series C Warrant will be automatically exchanged for a Series B Warrant (a "New Series B Warrant") without any further act or action to be taken by the holders of the Series C Warrants (the "Series C Warrant Exchange"). The New Series B Warrants shall be listed on the TSX. The Warrant Agent will reduce the Series C Warrant register to zero and will issue the Series B Warrants to the holders indicated on the Series C Warrant Register. All rights in respect of the Series C Warrants under Series C Warrant Agreement shall cease at such time and the Series C Warrant Agreement shall be terminated.

THE SERIES B WARRANT AGREEMENT AMENDMENTS

General

Warranholders are being asked to consider and, if deemed appropriate, to adopt, with or without amendment, the Extraordinary Resolution approving certain amendments to the Series B Warrant Agreement (collectively, the “Series B Warrant Agreement Amendments”), which, if approved by the Warranholders, will result in:

¹ Amending Section 3.1 of the Series B Warrant Agreement to increase the aggregate number of Series B Warrants that may be created, certified and issued under the Series B Warrant Agreement from 3,287,242 to 4,923,765.

² Including a provision permitting Kingsway and the Warrant Agent to enter into supplemental warrant agreements from time to time for the following purposes:

- (a) setting forth any adjustments resulting from the application of the provisions of Article 4 of the Series B Warrant Agreement;
 - adding to the provisions of the Series B Warrant Agreement such additional covenants and enforcement provisions
- (b) as, in the opinion of counsel, are necessary or advisable in the circumstances, provided that the same are not in the opinion of the Warrant Agent prejudicial to the interests of the Warranholders;
- (c) giving effect to any extraordinary resolution passed as provided in Section 7.6 of the Series B Warrant Agreement; adding to or altering the provisions of the Series B Warrant Agreement in respect of the transfer of Series B
- (d) Warrants, making provision for the exchange of Warrant Certificates (as defined in the Series B Warrant Agreement), and making any modification in the form of the Warrant Certificates which does not affect the substance thereof;
 - modifying any of the provisions of the Series B Warrant Agreement, including relieving Kingsway from any of the obligations, conditions or restrictions contained therein, provided that such modification or relief shall be or
- (e) become operative or effective only if, in the opinion of the Warrant Agent, such modification or relief in no way prejudices any of the rights of the Warranholders or of the Warrant Agent, and provided further that the Warrant Agent may in its sole discretion decline to enter into any such supplemental agreement which in its opinion may not afford adequate protection to the Warrant Agent when the same shall become operative; and
 - for any other purpose not inconsistent with the terms of the Series B Warrant Agreement, including the correction or rectification of any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions herein,
- (f) provided that in the opinion of the Warrant Agent the rights of the Warrant Agent and of the Warranholders are in no way prejudiced thereby.

Amending the amendment provisions contained in the Series B Warrant Agreement to permit Kingsway to amend the Series B Warrant Agreement and warrant certificates from time to time for the purpose of curing any ambiguity, ³ or of curing, correcting or supplementing any defective provisions contained therein, providing that such amendment does not, in the opinion of the Warrant Agent, materially prejudice the rights of Warranholders exercisable by extraordinary resolution of the Warranholders as set forth in Section 7.6 of the Series B Warrant Agreement.

In addition to the foregoing, certain other amendments to the Series B Warrant Agreement of an administrative or "housekeeping" nature have been approved by the Board and are reflected in the blackline attached in Schedule “B”.

If the Extraordinary Resolution is approved in accordance with the requirements set forth under “Warranholder Approval” below and the requisite TSX Approval (as set out below under “TSX Approval”) is obtained, then Kingsway and the Warrant Agent will enter into the Amended and Restated Series B Warrant Agreement substantially in the form attached as Schedule “B” to this Circular. The effective date of the Series B Warrant Agreement Amendments will be upon signing of the Amended and Restated Series B Warrant Agreement. In approving the Extraordinary Resolution, the Warranholders will be authorizing Kingsway and the Warrant Agent to enter into and execute the Amended and Restated Series B Warrant Agreement incorporating all of the provisions of the Series B Warrant Agreement and the Series B Warrant Agreement Amendments contemplated herein together with such other amendments and

modifications as the persons executing on behalf of Kingsway and the Warrant Agent may deem necessary or advisable to give effect to the Extraordinary Resolution and to authorize and direct Kingsway and the Warrant Agent to take such steps and do such acts and execute such other documents as may be necessary to give effect to the Extraordinary Resolution attached as Schedule "A" to this Circular.

The Extraordinary Resolution is attached to this Circular as Schedule "A". Schedule "B" sets out a blackline comparison of the Series B Warrant Agreement and the anticipated form of Amended and Restated Series B Warrant Agreement. A clean copy of the form of Amended and Restated Series B Warrant Agreement is also attached to this Circular as part of Schedule "B".

Warrantholder Approval

In order for the Extraordinary Resolution to be passed by Warrantholders, it must be approved by the affirmative votes of Warrantholders who hold in the aggregate not less than 66 % of the aggregate number of Series B Warrants represented at the Meeting (and voted on the Extraordinary Resolution). If passed, the Extraordinary Resolution will be binding upon all Warrantholders.

Unless otherwise directed, the management representatives named in the accompanying form of proxy intend to vote FOR the Extraordinary Resolution at the Meeting.

TSX Approval

Pursuant to the requirements of the TSX and the Series B Warrant Agreement, the proposed Series B Warrant Agreement Amendments and the form of Amended and Restated Series B Warrant Agreement must be approved by the TSX prior to the Amended and Restated Series B Warrant Agreement becoming effective. The TSX has accepted notice of the Series B Warrant Amendments and has provided conditional approval of the listing of an additional 1,642,975 Series B Warrants issuable pursuant to the Amended and Restated Series B Warrant Agreement.

RECOMMENDATION OF THE BOARD

The Board has concluded that the Series B Warrant Agreement Amendments are in the best interests of Kingsway and, as such, has authorized submission of this Circular and the Series B Warrant Agreement Amendments to Warrantholders for approval. The Board unanimously recommends that Warrantholders vote FOR the Series B Warrant Agreement Amendments.

INTERESTS OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Except as disclosed below, to the knowledge of Kingsway, no person who was a director or executive officer of Kingsway at any time since the beginning of Kingsway's last financial year and no associate or affiliate of any such director, executive officer or proposed nominee has any material interest, direct or indirect, in any matter to be acted upon at the Meeting.

Certain directors of Kingsway own, directly or indirectly, or exercise control or direction over Series C Warrants. If the Extraordinary Resolution is approved and the Series C Warrant Exchange is affected, it is anticipated that such directors will hold Series B Warrants as set out in the table below:

Name	Number of Series B Warrants as of the date hereof	Number of Series C Warrants as of the date hereof	Anticipated Number of Series B Warrants Post-Series C Warrant Exchange	Percentage of Issued and Outstanding Series B Warrants Post-Series C Warrant Exchange	
Oakmont Capital Inc. (1)	381,250	82,144	463,394	9.4	%
Joseph Stilwell	626,203	82,144	708,347	14.4	%
Gary Schaevitz	65,358	250,000	315,358	6.4	%

(1) Controlled by Gregory Hannon and Terence Kavanagh (each a director of Kingsway).

OTHER BUSINESS

Management and the Board know of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter with the best judgment of the person or persons voting the proxy.

WARRANT AGENT

The Warrant Agent under the Series B Warrant Agreement is Computershare Trust Company of Canada, a trust company incorporation under the federal laws of Canada and having an office in the City of Toronto, in the Province of Ontario. The Warrant Agent may be contacted as follows:

Computershare Trust Company of Canada
100 University Avenue
11th Floor, South Tower
Toronto, ON M5J 2Y1
Attention: General Manager, Corporate Trust Department

ADDITIONAL INFORMATION

Financial information about Kingsway is contained in its consolidated financial statements and Management's Discussion and Analysis for fiscal year ended December 31, 2013, and additional information relating to Kingsway is on SEDAR at www.sedar.com. You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its Public Reference Room. Our common stock is listed on the New York Stock Exchange under the symbol "KFS" and listed on the TSX under the symbol "KFS".

Warrantheolders will have received with this Circular our annual report on Form 10-K for the year ended December 31, 2013, filed on March 31, 2014 and our quarterly report on Form 10-Q quarter ended March 31, 2014 filed with the SEC on May 8, 2014. The SEC also allows "incorporation by reference" into this proxy statement of information that we file with the SEC. This permits us to disclose important information to you by referencing these filed documents. Any information referenced this way is considered to be a part of this proxy statement and any information filed by us with the SEC subsequent to the date of this proxy statement will automatically be deemed to update and supersede this information. We incorporate by reference the following documents which we have filed with the SEC; provided, however, that we are not incorporating by reference any additional documents or information furnished and not filed with the SEC:

- our current reports on Form 8-K filed on February 4, 2014 and February 25, 2014; and
- our proxy statement on Schedule 14A filed on April 30, 2014.

Notwithstanding the statements in the preceding paragraphs, no document, report or exhibit (or portion of any of the foregoing) or any other information that we have "furnished" or may in the future "furnish" to the SEC pursuant to the Exchange Act shall be incorporated by reference into this prospectus.

Kingsway may be contacted as follows:

Kingsway Financial Services Inc.
45 St. Clair Avenue West, Suite 400,
Toronto, ON M4V 1K9
Attention: Investor Relations

DIRECTORS' APPROVAL

The Board of Directors of Kingsway has approved the contents of this Circular and the sending of it to the Warrantholders.

By Order of the Board of Directors

"Terence Kavanagh"

Terence Kavanagh

Chairman of the Board of Directors

Toronto, Ontario

June 2, 2014

SCHEDULE "A"

SERIES B WARRANTHOLDER EXTRAORDINARY RESOLUTION

Capitalized terms used but not otherwise defined herein have the meanings ascribed thereto in the management information circular of Kingsway Financial Services Inc. ("Kingsway" or the "Company") dated June 2, 2014 (the "Circular").

BE IT RESOLVED as an Extraordinary Resolution that:

the Series B Warrant Agreement Amendments to the Series B Warrant Agreement dated September 16, 2013, (the "Series B Warrant Agreement") between the Company and Computershare Trust Company of Canada (the "Warrant Agent") governing the Series B Warrants, as described in the Circular and as set forth in the amended and restated Series B Warrant Agreement (the "Amended and Restated Series B Warrant Agreement") substantially in the form attached as Schedule "B" to the Circular are hereby approved and authorized;

the Company and the Warrant Agent are hereby authorized and directed to concur in, execute and deliver the Amended and Restated Series B Warrant Agreement which gives effect to the Series B Warrant Agreement Amendments, such Amended and Restated Series B Warrant Agreement to be substantially in the form set out in Schedule "B" to the Circular and all amendments incidental or ancillary thereto;

the Company and the Warrant Agent are hereby authorized and directed to execute and to cause to be executed on behalf of the holders of the Warrantholders or to deliver or cause to be delivered all such documents, agreements and instruments and to do or cause to be done all such other acts and things as the Company and its advisors shall determine to be necessary or desirable to carry out the intent of this Extraordinary Resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document, agreement or instrument or the doing of any such act or thing;

notwithstanding that this Extraordinary Resolution has been passed by the Warrantholders, the Company is authorized, without further notice to or approval of the Warrantholders, to not proceed with the transactions contemplated by the entering into of the Amended and Restated Series B Warrant Agreement;

any officer or director of the Company is hereby authorized and directed to execute and deliver all documents and to do all other acts or things as such individual may, in his or her sole discretion, determine to be appropriate from time to time to give effect to the foregoing, such determination to be conclusively evidenced by the execution and delivery by such individual of such documents or the doing of such other acts or things; and

the Warrant Agent is hereby authorized and directed to execute and deliver all documents and to do all other acts or things as the Warrant Agent and Company may determine to be necessary or appropriate from time to time to give effect to the foregoing, such determination to be conclusively evidenced by the execution and delivery by the Warrant Agent of such documents or the doing of such other acts or things.

SCHEDULE “B”

FORM OF AMENDED AND RESTATED SERIES B WARRANT AGREEMENT (BLACKLINE COMPARISON OF THE SERIES B WARRANT AGREEMENT DATED SEPTEMBER 16, 2013 AND PROPOSED FORM OF AMENDED AND RESTATED SERIES B WARRANT AGREEMENT)

KINGSWAY FINANCIAL SERVICES INC.

AMENDED AND RESTATED COMMON STOCK SERIES B WARRANT AGREEMENT

This Amended and Restated Common Stock Warrant Agreement (this “Agreement”), dated as of [___], 2013, between Kingsway Financial Services Inc., a corporation incorporated under the Business Corporations Act (Ontario) (the “Company”) and Computershare Trust Company of Canada, a trust company licensed to carry on business in all Provinces of Canada (collectively in such capacity, together with any successor appointed pursuant to the terms of this Agreement, the “Warrant Agent”).

WHEREAS, the Company proposes to issue issued warrants (each a “Warrant” and collectively, the “Warrants”) initially exercisable to purchase one share of the common stock of the Company, no par value per share (each, a “Common Share”); pursuant to a common stock warrant agreement (the “Original Agreement”) dated as of September 16, 2013; WHEREAS, the Warrants are being issued in connection with a rights offering by the Company (the “Offering”) in which the Company offered transferable subscription rights (the “Subscription Rights”) entitling the holders thereof to purchase units (“Units”), each consisting of one Common Share and one Series A Warrant (as defined below) and one Series B Warrant (as defined below), each to purchase one Common Share per each Warrant;

WHEREAS, the exercise price for one series of the Warrants (the “Series A Warrants”) is the greater of US\$4.50 and 120% of the volume weighted average price of the Common Shares (“VWAP”) over the twenty trading day period on the NYSE ending on the trading day prior to the issuance date of the Series A Warrants, and the exercise price of the second series of Warrants (the “Series B Warrants”) is the greater of US\$5.00 and 120% of the VWAP over the twenty trading day period on the NYSE ending on the trading day prior to the issuance date of the Series B Warrants (US\$5.00); and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, registration, transfer, exchange, exercise and cancellation of the Series B Warrants and other matters as expressly provided herein.;

WHEREAS, the Company desires to amend and restate the Original Agreement;

The foregoing recitals are made as representations and statements of fact by the Company and not by the Warrant Agent;

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

ARTICLE I.

DEFINITIONS

Section 1.1 Definition of Terms. As used in this Agreement, the following capitalized terms shall have the following respective meanings:

(a) “Applicable Securities Laws” shall mean the Securities Act, the Exchange Act (as defined below), applicable U.S. state securities laws and the securities laws of applicable Canadian provinces and territories;

- (b) “Authenticated” means (a) with respect to the issuance of a Warrant Certificate (as defined in this Agreement), one which has been duly signed by the Company and authenticated by manual signature of an authorized officer of the Warrant Agent, (b) with respect to the issuance of an Uncertificated Warrant (as defined below), one in respect of which the Warrant Agent has completed all Internal Procedures (as defined below) such that the particulars of such Uncertificated Warrant as required by Section 3.2 are entered in the register of holders of Series B Warrants, “Authenticate”, “Authenticating” and “Authentication” have the appropriate correlative meanings;
- (c) “Beneficial Holder” shall mean any person or entity that holds beneficial interests in a Warrant Certificate (as defined in this Agreement) or an Uncertificated Warrant;
- (d) “Business Day” shall mean day other than a Saturday, Sunday or other day on which banks in the State of New York or the Province of Ontario, Canada are authorized by law to remain closed;
- (e) “Certificated Warrant” means a Series B Warrant evidenced by a writing or writings substantially in the form of Schedule “A” attached hereto;
- (f) “Clearing Agency” means CDS Clearing and Depository Services Inc., its successors and permitted assigns (“CDS”), the Depository Trust Company or any other organization registered as a “clearing agency” pursuant to the securities legislation of any province or territory of Canada, as in effect from time to time, and any additional qualified clearing agency that carries on business within or outside Canada for Warrantholders resident in the relevant jurisdiction, or any of the foregoing, as the context may require, all as may be designated by the Company from time to time;
- (g) “Co-Agent” means Computershare Inc., a Delaware corporation;
- (h) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended;
- (i) “Expiration Date” shall mean 5:00 p.m., Eastern time, on ___ September 15, 20__23 or such earlier date as may be specified by the Company, or if such day is not a Business Day, the next succeeding day which is a Business Day;
- (j) “Internal Procedures” means procedures internal to the Warrant Agent necessary to carry out its duties as warrant agent under this Agreement;
- (k) “Issue Date” means, with respect to a Series B Warrant, the date that such Series B Warrant is issued by the Company;
- (kl) “Participant” means a broker, dealer, bank or other financial institution or other person who maintains an account for clearing and holding securities, including Series B Warrants, with a Clearing Agency and on whose behalf a Clearing Agency or its nominee holds Series B Warrant;
- (lm) “SEC” shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act;
- (mn) “Uncertificated Warrant” means any Series B Warrant which is not a Certificated Warrant;
- (no) “Warrant Shares” shall mean Common Shares and any other securities purchased or purchasable upon exercise of the Series B Warrants (and, if the context requires, securities which may thereafter be issued by the Company in respect of any such securities so purchased, by means of any subdivisions or combinations of its capital stock, or recapitalizations, reclassifications or the like); and
- (op) “Warrantholders”, “Holders” or “holders” means the persons for the time being entered in a register of holders described in Section 3.3(f) hereof as holders of Series B Warrants.

ARTICLE II.

APPOINTMENT OF WARRANT AGENT

Section 2.1 Appointment. The Company hereby appoints the Warrant Agent to act as agent for the Company for the Series B Warrants in accordance with the instructions hereinafter set forth in this Agreement, and the Warrant Agent hereby accepts such appointment and agrees to perform the same in accordance with the terms and conditions set forth in this Agreement.

ARTICLE III.
WARRANTS

Section 3.1 Issuance of Warrants. The Series B Warrants will be issued on the terms and subject to the conditions of this Agreement on [____], 2013 (the "Issue Date") in the amounts and to the Holders determined pursuant to the terms of the Offering. On such date, the Company will deliver a written order to the Warrant Agent, authorizing the issuance and delivery of Series B Warrants. The maximum number of Warrant Shares issuable pursuant to the Series B Warrants shall be 4,923,287,24265 Common Shares, as such amount may be adjusted from time to time pursuant to this Agreement. All Series B Warrants will rank pari passu, whatever may be the actual dates of the issuance thereof.

Section 3.2 Form of Warrant.

(a) The Series B Warrants may be issued in both certificated and uncertificated form. All Series B Warrants issued in certificated form shall be evidenced by a warrant certificate (including all replacements issued in accordance with this Agreement), substantially in the form attached hereto as Schedule "A" or in such other form as may be approved by the Company and the Warrant Agent (a "Warrant Certificate"), which shall be dated as of the Issue Date, shall bear such distinguishing letters, numbers and legends as the Company may, with the approval of the Warrant Agent, prescribe, and shall be issuable in any whole number denomination. Series B Warrants issued to the Clearing Agency may be in uncertificated form and shall be evidenced on the register of Warrantholders to be maintained by the Warrant Agent.

(b) Each Warrant Certificate may be engraved, lithographed or printed (the expression "printed" including for purposes hereof both original typewritten material as well as mimeographed, mechanically, photographically, photostatically or electronically reproduced, typewritten or other written material), or partly in one form and partly in another, as the Company may determine.

Section 3.3 Execution of Warrant Certificates.

(a) The Warrant Certificates shall be signed on behalf of the Company by its Chief Executive Officer, its President or any Executive Vice President (each, an "Appropriate Officer"). Each such signature upon the Warrant Certificates may be in the form of a facsimile signature of any such Appropriate Officer and may be imprinted or otherwise reproduced on the Warrant Certificates and for that purpose the Company may adopt and use the facsimile signature of any Appropriate Officer.

(b) If any Appropriate Officer who shall have signed any of the Warrant Certificates shall cease to be such Appropriate Officer before the Warrant Certificates so signed shall have been countersigned by the Warrant Agent or disposed of by the Company, such Warrant Certificates nevertheless may be countersigned and delivered or disposed of as though such Appropriate Officer had not ceased to be such Appropriate Officer of the Company; and any Warrant Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Warrant Certificate, shall be a proper Appropriate Officer of the Company to sign such Warrant Certificate, although at the date of the execution of this Agreement any such person was not such Appropriate Officer.

(c) Authentication of Warrant Certificates. No Warrant Certificate will be issued or, if issued, such Warrant Certificate will not be valid or entitle the holder to the benefits hereof until it has been Authenticated on behalf of the Warrant Agent substantially in the form of the certificate attached hereto as Schedule "A" or in such other form as may be approved by the Company and the Warrant Agent. Such Authentication shall be conclusive evidence that such Warrant Certificate has been duly issued hereunder and that the holder or holders are entitled to the benefits of this Agreement.

(d) The Warrant Agent shall Authenticate Uncertificated Warrants (whether upon original issuance, exchange, registration of transfer, or otherwise) by completing its Internal Procedures and the Company shall, and hereby acknowledges that it shall, thereupon be deemed to have duly and validly issued such Uncertificated Warrants under this Agreement. Such Authentication shall be conclusive evidence that such Uncertificated Warrant has been duly issued hereunder and that the holder or holders are entitled to the benefits of this Agreement. The register shall be final and conclusive evidence as to all matters relating to Uncertificated Warrants with respect to which this Agreement requires the Warrant Agent to maintain records or accounts. In case of differences between the register at any time and any other time the register at the later time shall be controlling, absent manifest error.

(e) Authentication Not Representation. The Authentication by the Warrant Agent of any Warrant Certificate or Uncertificated Warrants issued hereunder will not be construed as a representation or warranty by the Warrant Agent as to the validity of this Agreement or such Warrant Certificate or Uncertificated Warrants (except with respect to the due Authentication thereof) or as to the performance by the Company of its obligations under this Agreement and the Warrant Agent will in no respect be liable or answerable for the use made of any Warrant Certificate or of the consideration therefor, except as otherwise specified herein.

(f) The Warrant Agent shall keep, at an office designated for such purpose in Ontario, Canada, or at any other place designated by the Company with the approval of the Warrant Agent, books (the "Warrant Register") in which, subject to such reasonable regulations as it may prescribe, it shall register the Series B Warrants and exchanges and transfers of outstanding Series B Warrants in accordance with the procedures set forth in Section 6.1 of this Agreement, all in form satisfactory to the Company and the Warrant Agent. No service charge shall be made for any exchange or registration of transfer of the Series B Warrants, but the Company may require payment of a sum sufficient to cover any stamp or other tax or other governmental charge that may be imposed on the Registered Holder (as defined below) in connection with any such exchange or registration of transfer. The Warrant Agent shall have no obligation to effect an exchange or register a transfer unless and until any payments required by the immediately preceding sentence have been made.

(g) Prior to due presentment for registration of transfer or exchange of any Series B Warrant in accordance with the procedures set forth in this Agreement, the Company and the Warrant Agent may deem and treat the person in whose name any Series B Warrant is registered upon the Warrant Register (the "Registered Holder" of such Series B Warrant) as the absolute owner of such Series B Warrant (notwithstanding any notation of ownership or other writing on a Warrant Certificate made by anyone other than the Company or the Warrant Agent), for the purpose of any exercise thereof, any distribution to the holder thereof and for all other purposes, and neither the Warrant Agent nor the Company shall be affected by notice to the contrary.

(h) Once an Uncertificated Warrant has been Authenticated, the information set forth in the Warrant Register with respect thereto at the time of Authentication may be altered, modified, amended, supplemented or otherwise changed only to reflect exercise or proper instructions to the Warrant Agent from the holder as provided herein, except that the Warrant Agent may act unilaterally to make purely administrative changes internal to the Warrant Agent and changes to correct errors. Each person who becomes a holder of an Uncertificated Warrant, by his, her or its acquisition thereof shall be deemed to have irrevocably (i) consented to the foregoing authority of the Warrant Agent to make such error corrections and (ii) agreed to pay to the Warrant Agent, promptly upon written demand, the full amount of all loss and expense including without limitation reasonable legal fees of the Company and the Warrant Agent plus interest, at an appropriate then prevailing rate of interest to the Warrant Agent, sustained by the Company or the Warrant Agent as a proximate result of such error if but only if and only to the extent that such present or former holder realized any benefit as a result of such error and could reasonably have prevented, forestalled or minimized such loss and expense by prompt reporting of the error or avoidance of accepting benefits thereof whether or not such error is or should have been detected in a timely fashion and corrected by the Warrant Agent; provided, that no person who is a bona fide purchaser shall have any such obligation to the Company or to the Warrant Agent.

Section 3.4 Uncertificated Warrants issued to Clearing Agency.

(a) No Warrant Certificate shall be issued in respect of Uncertificated Warrants held in the name of the Clearing Agency, except where physical certificates evidencing ownership in such securities are required or as set out herein or as may be requested by the Clearing Agency, as determined by the Company, from time to time. Such Uncertificated Warrants will initially be registered on the Warrant Register maintained by the Warrant Agent in the name of the Clearing Agency.

(b) Re-registrations of interests in, and transfers of, Uncertificated Warrants by the beneficial owners thereof shall be made only through the Clearing Agency and any person transferring Series B Warrant in such manner shall be deemed to have transferred to the transferee all of such person's rights and obligations in respect thereof; all transferees of such Series B Warrants shall be deemed to have received and accepted such transfer and be deemed to have agreed to be bound by the provisions of this Agreement.

(c) The Company may terminate the application of this Section 3.4 in its sole discretion in which case all

B-4

Uncertificated Warrants shall as soon as reasonably practicable thereafter be evidenced in certificated form and registered in the name of a person other than a Clearing Agency.

(d) The Company and the Warrant Agent may deal with the Clearing Agency for all purposes (including the making of payments and the delivery of any notice, report or other communication) as the registered holder of the Uncertificated Warrants and as the authorized representative of the respective beneficial holders of such Warrants.

(e) To the extent that the provisions of this Section 3.4 conflict with any other provisions of this Agreement, the provisions of this Section 3.4 shall prevail.

(f) Transfers of beneficial ownership in any Uncertificated Warrant will be effected only (i) with respect to the interest of a Participant, through records maintained by the Clearing Agency or its nominee for such Uncertificated Warrants, and (ii) with respect to the interest of any person other than a Participant, through records maintained by Participants. Beneficial owners of Uncertificated Warrants who are not Participants but who desire to sell or otherwise transfer ownership of or any other interest in such Uncertificated Warrants may do so only through a Participant.

(g) The rights of beneficial owners of Uncertificated Warrants shall be limited to those established by applicable law and agreements between the Clearing Agency and Participants and between such Participants and such beneficial owners and must be exercised through a Participant in accordance with the rules and procedures of the Clearing Agency.

(h) Subject to Subsection 3.4(i), neither the Company nor the Warrant Agent shall be under any obligation to deliver to any Participant or beneficial owner of Uncertificated Warrants, nor shall any Participant or beneficial owner of Uncertificated Warrants have any right to require the delivery of, a certificate or other instrument evidencing any interest in Series B Warrants.

(i) If there are Uncertificated Warrants and any of the following events occur:

(i) the Clearing Agency or the Company has notified the Warrant Agent that (i) the Clearing Agency is unwilling or unable to continue as the depository or (ii) the Clearing Agency ceases to be a clearing agency in good standing under applicable laws and, in either case, the Company is unable to locate a qualified successor depository within 90 days of delivery of such notice; or

(ii) the Company or the Clearing Agency is required by applicable law, or otherwise determines, to take the action contemplated in this Subsection 3.4(i);

then one or more definitive fully registered Warrant Certificates shall be, in exchange for such Uncertificated Warrants, issued and delivered by the Warrant Agent in accordance with the instructions provided by the Clearing Agency pursuant to Subsection 3.4(j).

(j) Fully registered Warrant Certificates issued pursuant to Subsection 3.4(i), shall be registered in such names and in such denominations as the Clearing Agency shall instruct the Warrant Agent, provided that the aggregate number of Series B Warrants represented by such Warrant Certificates shall be equal to the aggregate number of the Uncertificated Warrants exchanged. Neither the Company nor the Warrant Agent shall be liable for any delay in delivery of such instructions and may conclusively act and rely on, and shall be protected in acting and relying on, such instructions. Upon exchange of an Uncertificated Warrant for one or more Warrant Certificates in definitive form, such Uncertificated Warrant shall be cancelled by the Warrant Agent.

(k) If definitive Warrant Certificates have been issued and thereafter the Company advises the Warrant Agent of the availability of book-based entry or other electronic issuance with a Clearing Agency in regard to such Series B Warrants, the Warrant Agent and the Company may agree to allow for the re-registration of such definitive Warrant Certificates under such procedure. Upon surrender by any such Warrantholder of its definitive Warrant accompanied by instructions for re-registration of the Warrant under such procedure, such Warrant shall thereafter be re-registered under such procedure and be subject to the foregoing provisions of this Section 3.4 and Subsection 3.4(m), mutatis mutandis. The Company shall pay all expenses incurred by the Warrant Agent and the reasonable fees of the Warrant Agent associated with any termination of the use of such procedure and of any such re-registration of the definitive Series B Warrants under such procedure.

(l) Notwithstanding anything herein or in the terms of the Series B Warrants to the contrary, neither the Company nor the Warrant Agent nor any agent thereof shall have any responsibility or liability for (i) the records maintained by

the Clearing Agency or Participants relating to the Series B Warrants or the accounts maintained by them, (ii) maintaining, supervising or reviewing any records relating to such Series B Warrants, (iii) any advice or representation made or given by the Clearing Agency or Participants with respect to the rules and regulations of the Clearing Agency or the Participants, or (iv) any action to be taken by the Clearing Agency or the Participants or any failure by the Clearing Agency or the Participants to take any action.

(m) The provisions of Section 6.1 with respect to the transfer of Series B Warrants are subject to the provisions of this Section 3.4.

ARTICLE IV.

TERMS AND EXERCISE OF WARRANTS

Section 4.1 Exercise Period and Expiration. Subject to the provisions of the Series B Warrants and this Agreement, and regardless of the Issue Date. Series B Warrants may be exercised by the Holder thereof at any time and from time to time during the period commencing on the first day of the thirty- seventh month after the Issue Date and terminating at 5:00 p.m., Eastern time, on the Expiration Date. Any Series B Warrant not exercised prior to 5:00 p.m., Eastern time, on the Expiration Date, shall become permanently and irrevocably null and void at 5:00 p.m., Eastern time, on the Expiration Date, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at such time.

Section 4.2 Exercise of Warrants.

(a) Exercise of Certificated Warrants. The holder of any Certificated Warrant may at any time and from time to time during the period commencing on the first day of the thirty- seventh month after the Issue Date and terminating at 5:00 p.m., Eastern time, on the Expiration Date, exercise the right thereby conferred, to be issued Warrant Shares by surrendering to the Warrant Agent at its office in Toronto, Ontario, or at the Co-Agent's office in Providence, Rhode Island or to any other person or at any other place designated by the Company with the approval of the Warrant Agent, during normal business hours on a Business Day, the Warrant Certificate evidencing such Series B Warrant and a duly completed and executed notice of exercise substantially in the form set out in such Warrant Certificate, together with a certified cheque, bank draft or money order in lawful money of the United States, payable to or to the order of the Company in an amount equal to US\$the Exercise Price (as the same may be hereafter adjusted pursuant to Article V, the "Exercise Price") multiplied by the number of Warrant Shares subscribed for.

Any notice of exercise referred to in this section, shall be signed by the Warrantholder, or its executors or administrators or other legal representatives or an attorney of the Warrantholder, duly appointed by an instrument in writing satisfactory to the Warrant Agent.

(b) Exercise of Uncertificated Warrants. BThe beneficial owner of Uncertificated Warrants who desires to exercise Series B Warrants must do so by causing a Participant to deliver to the Clearing Agency on behalf of the entitlement holder, notice of the owner's intention to exercise Series B Warrants in a manner acceptable to the Clearing Agency. Forthwith, upon receipt by the Clearing Agency of such notice, as well as payment for the Exercise Price multiplied by the number of Warrant Shares subscribed for, the Clearing Agency shall deliver to the Warrant Agent confirmation of its intention to exercise Series B Warrants ("Confirmation") in a manner acceptable to the Warrant Agent, including by electronic means through the book entry registration system.

Payment representing the Exercise Price multiplied by the number of Warrant Shares subscribed for must be provided to the appropriate office of the Participant in a manner acceptable to it. A notice in the form acceptable to the Participant and payment for such beneficial holder should be provided to the Participant sufficiently in advance so as to permit the Participant to deliver notice and payment to the Clearing Agency and for the Clearing Agency in turn to deliver notice and payment to the Warrant Agent prior to the Expiration Date. The Clearing Agency will initiate the exercise by way of Confirmation and forward the Exercise Price multiplied by the number of Warrant Shares subscribed for electronically to the Warrant Agent and the Warrant Agent will execute the exercise by issuing to the Clearing Agent through the book entry registration system the Common Shares to which the exercising Warrantholder is entitled pursuant to the exercise. Any expense associated with the exercise process will be for the account of the entitlement holder exercising the Series B Warrants and/ or the Participant exercising the Series B Warrants on its behalf.

By causing a Participant to deliver notice to the Clearing Agency, a Warrantholder shall be deemed to have irrevocably surrendered his or her Series B Warrants so exercised and appointed such Participant to act as his or her exclusive settlement agent with respect to the exercise and the receipt of Warrant Shares in connection with the obligations arising from such exercise.

Any notice which the Clearing Agency determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the exercise to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a Participant to exercise or to give effect to the settlement thereof in accordance with the Warrantholder's instructions will not give rise to any obligations or liability on the part of the Company or Warrant Agent to the Participant or the Warrantholder.

(c) Any exercise referred to in this section, shall require that the entire Exercise Price for Warrant Shares subscribed must be paid at the time of subscription and such Exercise Price and original exercise notice executed by the Registered Holder the Confirmation from the Clearing Agency must be received by the Warrant Agent prior to the Expiration Date.

(d) Notwithstanding the foregoing in this Section 4.2, Series B Warrants may only be exercised pursuant to this Section 4.2 by or on behalf of a Registered Holder, except the Clearing Agency or Warrantholder, as applicable, who makes the certifications set forth on the exercise notice.

Section 4.3 Intentionally Deleted.

Section 4.4 Effect of Exercise.

(a) Effect of Exercise. Upon the exercise of any Certificated Warrants or Uncertificated Warrants in accordance with Section 4.2 hereof, the Warrant Shares thereby issuable shall be deemed to have been issued, and the person or persons to whom such Warrant Shares are to be issued shall be deemed to have become the holder or holders of record thereof, on the Business Day on which such Series B Warrant is validly exercised (or deemed to be validly exercised in accordance with Article IV hereof), unless the transfer registers for the Warrant Shares are closed on that date, in which case such Warrant Shares shall be deemed to have been issued and such person or persons shall be deemed to have become the holder or holders of record thereof on the date on which such transfer registers are reopened, but such Warrant Shares shall be issued on the basis of the number of Warrant Shares to which such person or persons were entitled on such exercise date.

(b) Exercise of Certificated Warrants. As soon as reasonably practicable, and in any event not later than five (5) Business Days after the surrender to the Warrant Agent of Warrant Certificates and instructions received in good order in accordance with Section 4.2, the Warrant Agent shall mail by way of first class insured mail to the person or persons in whose name or names the Warrant Shares thereby issued have been issued, at his, her, its or their respective addresses, or, if so specified, cause to be delivered to such person or persons at the place where the Warrant Certificates evidencing such Series B Warrants were surrendered, certificates representing the Warrant Shares so issued.

(c) Exercise of Uncertificated Warrants. As soon as reasonably practicable, and in any event not later than five (5) Business Days after the Clearing Agency has initiated the exercise by way of Confirmation and has delivered the Exercise Price multiplied by the number of Warrant Shares subscribed for electronically to the Warrant Agent, the Warrant Agent will execute the exercise by issuing to the Clearing Agent through the book entry registration system the Common Shares to which the exercising Warrantholder is entitled pursuant to the exercise, the Warrant Agent shall cause the share position of the Clearing Agency on the register of Common Shares to be increased by the number of Warrant Shares issued in connection with the exercise of such Uncertificated Warrants.

(d) Issue to Other than Holder. If any Warrant Shares issuable pursuant to any Series B Warrants are to be issued to a person or persons other than the Warrantholder, the Warrantholder must pay to the Company or to the Warrant Agent on its behalf an amount equal to all exigible transfer taxes or other government charges, and neither the Company nor the Warrant Agent will be required to issue or deliver any such Warrant Shares unless or until such amount has been so paid or the Warrantholder has established to the satisfaction of the Company that such taxes and charges have been paid or that no such taxes or charges are owing.

Section 4.5 Reservation of Shares. The Company hereby agrees that at all times there shall be reserved for issuance and delivery upon exercise of Series B Warrants such number of Warrant Shares as may be from time to time

B-7

issuable upon exercise in full of the Series B Warrants, such that the Company may validly and legally issue all Warrant Shares in compliance with this Section. All Warrant Shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable. If at any time prior to the Expiration Date the number and kind of authorized but unissued shares of the Company's capital stock shall not be sufficient to permit exercise in full of the Series B Warrants, the Company will promptly take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares to such number of shares as shall be sufficient for such purposes. The Company agrees that its issuance of Series B Warrants shall constitute full authority to its officers who are charged with the issuance of Warrant Shares to issue Common Shares upon the exercise of the Series B Warrants. Without limiting the generality of the foregoing, the Company will not increase the stated or par value per share, if any, of the Common Shares above the Exercise Price in effect immediately prior to such increase in stated or par value.

Section 4.6 Listing. Prior to the issuance of any Warrant Shares upon exercise of the Series B Warrants, the Company shall use reasonable best efforts to secure the listing of such Common Shares or other Warrant Shares upon each national securities exchange, stock market or automated quotation system, if any, upon which Common Shares (or securities of the same class as such other Warrant Shares, if applicable) are then listed (subject to official notice of issuance upon exercise of the Series B Warrants) and shall use reasonable best efforts to maintain, so long as any other Common Shares (or, as applicable, other securities) shall be so listed, such listing of all Warrant Shares from time to time issuable upon the exercise of the Series B Warrants.

Section 4.7 Compliance with Law.

(a) If any Warrant Shares are required under any federal, provincial or state law or applicable governing rule or regulation of any national securities exchange, to be registered with or approved by any governmental authority or listed on any such national securities exchange before such shares may be issued upon exercise, the Company will use its reasonable best efforts to cause such shares to be duly registered or approved by such governmental authority or listed on the relevant national securities exchange, as the case may be.

(b) The Series B Warrants shall not be exercisable and the Company shall not be obligated to issue Warrant Shares unless, at the time a holder seeks to exercise the Series B Warrants, a prospectus relating to Warrant Shares is current and a registration statement for the Warrant Shares is effective or qualified or the issuance of Warrant Shares is deemed to be exempt under the securities laws of the jurisdiction of residence of the holder of the Series B Warrants.

Section 4.8 Partial Exercise of Warrants; Fractions.

(a) **Partial Exercise.** The holder of any Series B Warrants may exercise his or her right to acquire a number of whole Common Shares less than the aggregate number which the holder is entitled to acquire. In the event of any exercise of a number of Series B Warrants less than the number which the holder is entitled to exercise, the holder of Series B Warrants upon such exercise shall, in addition, be entitled to receive, without charge therefor, a new Warrant Certificate(s), bearing the same legend, if applicable, or other appropriate evidence of Series B Warrants, in respect of the balance of the Series B Warrants held by such holder and which were not then exercised.

(b) **Fractions.** The Company shall not be required to issue fractional Warrant Shares in satisfaction of its obligations hereunder and no cash or other consideration will be paid in lieu of fractional Warrant Shares. Any subscription for fractional Warrant Shares will be deemed to be a subscription for the next lowest whole number of Warrant Shares.

ARTICLE V.

ADJUSTMENT OF SHARES OF COMMON STOCK

PURCHASABLE AND OF EXERCISE PRICE

The Exercise Price and the number and kind of Warrant Shares shall be subject to adjustment from time to time upon the happening of certain events as provided in this Article V.

Section 5.1 Adjustment of Exercise Price and Warrant Shares. The Exercise Price and number of Warrant Shares purchasable under the Series B Warrants are subject to adjustment from time to time as set forth in this Section 5.1.

(a) In case the Company shall at any time:

- subdivide the outstanding Common Shares into a larger number of shares other than pursuant to
- (i) Section 5.1 (b), the Exercise Price in effect immediately prior to such subdivision shall be proportionately decreased, effective from and after the record date of such subdivision; and
 - (ii) combine the outstanding Common Shares into a smaller number of shares by a reverse split or otherwise, the Exercise Price in effect immediately prior to such combination shall be proportionately increased, effective from and after the record date of such combination.

Upon any adjustment in the Exercise Price pursuant to this Section 5.1(a), the holder of any Series B Warrant shall thereafter be entitled to purchase, at the adjusted Exercise Price, the number of Warrant Shares, rounded down to the nearest whole share, obtained by multiplying the number of Warrant Shares purchasable hereunder immediately prior to such adjustment by the Exercise Price in effect immediately prior to such adjustment, and dividing the product thereof by the Exercise Price resulting from such adjustment.

(b) In case the Company shall issue additional Common Shares as a special dividend on the Common Shares (a "Special Dividend"), from and after the day which is the record date for the determination of shareholders entitled to such Special Dividend, the holder of any Series B Warrant shall, until a further adjustment, be entitled to purchase the number of Warrant Shares, rounded down to the nearest whole share, obtained by multiplying the number of Warrant Shares purchasable hereunder immediately prior to said record date by a fraction, the numerator of which is the total number of Common Shares outstanding after the issuance of the Special Dividend, calculated on a fully diluted basis assuming the conversion of all outstanding convertible securities and the exercise of all outstanding options, warrants or other rights (including those with respect to convertible securities), and the denominator of which is the number of Common Shares outstanding immediately prior to said record date, calculated on a fully diluted basis assuming the conversion of all outstanding convertible securities and the exercise of all outstanding options, warrants, or other rights (including those with respect to convertible securities). Upon each adjustment pursuant to this Section 5.1(b), the Exercise Price in effect immediately prior to such adjustment shall be reduced to an amount determined by dividing the product obtained by multiplying such Exercise Price by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment by the number of Warrant Shares purchasable hereunder immediately following such adjustment.

Section 5.2 Reorganization or Reclassification. If at any time while there are Series B Warrants outstanding there shall be any reorganization or reclassification of the Common Shares of the Company (other than a subdivision or combination of shares provided for in Section 5.1, or a Fundamental Transaction (as defined below)), the Holder shall thereafter be entitled to receive, upon exercise of its Series B Warrant(s) prior to the Expiration Date and upon payment of the Exercise Price, the number of shares of stock or other securities or property of the Company resulting from such reorganization or reclassification, as the case may be, to which a holder of the Common Shares, deliverable upon the exercise of a Series B Warrant, would have been entitled upon such reorganization or reclassification if such Series B Warrant had been exercised immediately prior to such reorganization or reclassification, and in any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions with respect to the rights and interest thereafter of the Holder to the end that the provisions set forth herein (including the adjustment of the Exercise Price and the number of shares issuable upon the exercise of a Series B Warrant) shall thereafter be applicable, as near as reasonably may be, in relation to any shares or other property thereafter deliverable upon exercise. The provisions of this Section 5.2 shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales, transfers, other dispositions or similar transactions.

Section 5.3 Form of Warrant After Adjustments. The form of the Warrant Certificate need not be changed because of any adjustments in the Exercise Price or the number or kind of the Warrant Shares, and Series B Warrants theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Series B Warrants, as initially issued. The Company, however, may at any time in its sole discretion make any change in the form of Warrant Certificate that it may deem appropriate to give effect to such adjustments and that does not affect the substance of the Warrant Certificate (including the rights, duties or obligations of the Warrant Agent), and any Warrant Certificate thereafter issued, whether in exchange or substitution for an outstanding Warrant Certificate, may

be in the form so changed.

B-9

Section 5.4 Fundamental Transactions. If any (i) capital reorganization, reclassification of the Company Securities, consolidation, amalgamation or merger of the Company with another entity in which the issued and outstanding stock of the Company (excluding treasury shares) immediately prior to such transaction represents less than 50% of the voting power of the surviving entity immediately after such transaction, (ii) sale, transfer or other disposition of all or substantially all of the Company's assets to another entity, or (iii) similar transaction requiring shareholder approval shall be effected (any such transaction being hereinafter referred to as a "Fundamental Transaction"), then the holders shall be permitted to exercise any Series B Warrants with the provisions of Section 4.2 immediately prior to the consummation of such Fundamental Transaction. If a holder does not exercise a Series B Warrant prior to the consummation of a Fundamental Transaction, then such Series B Warrant shall not at any time be, or become, exercisable and shall expire (and become null and void) automatically with no further action required on behalf of the Company upon consummation of the Fundamental Transaction.

Section 5.5 Notice to Warrant Holders.

(a) Notice of Adjustment. Whenever the number and/or kind of Warrant Shares or the Exercise Price is adjusted as herein provided, the Company shall (i) prepare and deliver, or cause to be prepared and delivered, forthwith to the Warrant Agent a statement setting forth the adjusted number and/or kind of Common Shares purchasable upon the exercise of the Series B Warrants and the Exercise Price of such Common Shares after such adjustment, the facts requiring such adjustment and the computation by which adjustment was made, and (ii) cause the Warrant Agent to give written notice to each Holder in the manner provided in Section 9.2 below, of the record date or the effective date of the event. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

(b) Notice of Fundamental Transactions. In the event that the Company shall propose to effect a Fundamental Transaction, then the Company shall send to the Warrant Agent a notice and shall cause the Warrant Agent within five days after receipt by the Warrant Agent to give written notice (in such form as shall be furnished to the Warrant Agent by the Company) to each Holder in the manner provided in Section 9.2 of such Fundamental Transaction. Such notice shall specify (i) the record date, if any, for the Fundamental Transaction, (ii) the date such Fundamental Transaction is expected to take place, and (iii) the effect, if any, of such action on the Common Shares, if any. Such notice shall be given to Holders at least 15 days prior to the date of the consummation of the Fundamental Transaction, but in no event shall the Company be required to give notice prior to public announcement if the Company has in good faith determined that the matters relating to such notice constitute material, nonpublic information relating to the Company or its Subsidiaries. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

Section 5.6 No Adjustment. No adjustment in the number of Warrant Shares purchasable hereunder shall be required unless such adjustment would require an increase or decrease of at least one percent in the number of Warrant Shares purchasable upon the exercise of each Series B Warrant; provided, however, that any adjustments that by reason of this Section 5.6 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations shall be made to the nearest cent and to the nearest one-hundredth of a Common Share, as the case may be.

ARTICLE VI. TRANSFER AND EXCHANGE OF WARRANTS AND WARRANT SHARES

Section 6.1 Registration of Transfers and Exchanges.

(a) Transfer. No transfer of any Series B Warrant by a Warrantholder will be valid unless entered on the register of transfers referred to in Subsection 3.3(f) hereof upon surrender to the Warrant Agent of the Warrant Certificate evidencing such Series B Warrant, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Warrant Agent executed by the registered holder or his, her or its executors, administrators or other legal representatives or his, her or its or their attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Warrant Agent, and, upon compliance with such requirements and such other reasonable requirements as the Warrant Agent and the Company may prescribe, such transfer will be duly noted on one of such registers of transfers by the Warrant Agent.

(b) Register of Transfers. The transferee of any Series B Warrant pursuant to Subsection 6.1(a) hereof will, after surrender to the Warrant Agent of the Warrant Certificate evidencing such Series B Warrant as required by Subsection 6.1(a) hereof and upon compliance with all other conditions in respect thereof required by this Agreement or by law, be entitled to be entered on the register of holders referred to in Subsection 3.3(f) hereof as the owner of such Series B Warrant free from all equities or rights of set-off or counterclaim between the Company and the transferor or any previous holder of such Series B Warrant, except in respect of equities of which the Company is required to take notice by statute or by order of a court of competent jurisdiction.

(c) Refusal of Registration. The Company will be entitled, and may direct the Warrant Agent, to refuse to recognize any transfer, or enter the name of any transferee, of any Series B Warrant on the registers referred to in Subsection 3.3(f) hereof, if such transfer would constitute a violation of the securities laws of any jurisdiction or the rules, regulations or policies of any regulatory authority having jurisdiction. The Warrant Agent is entitled to assume compliance with all applicable securities legislation unless otherwise notified in writing by the Company. No duty will rest with the Warrant Agent to determine compliance of the transferee or transferor of any Series B Warrant with applicable securities legislation. The Warrant Agent may, when deemed necessary, acting reasonably, contact the Company or counsel to confirm the validity of any transfer of Series B Warrants prior to completing same.

(d) No Notice of Trusts. Subject to applicable law, neither the Company nor the Warrant Agent will be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Series B Warrant, and may transfer any Series B Warrant on the direction of the person registered as the holder thereof, whether named as trustee or otherwise, as though that person were the beneficial owner thereof.

(e) Inspection. The register of Warranholders shall be available for inspection by the Company and or any Warranholder during the Warrant Agent's regular business hours on a Business Day and upon payment to the Warrant Agent of its reasonable fees. Any Warranholder exercising such right of inspection shall first provide an affidavit in form satisfactory to the Company and the Warrant Agent stating the name and address of the Warranholder and agreeing not to use the information therein except in connection with an effort to call a meeting of Warranholders or to influence the voting of Warranholders at any meeting of Warranholders.

(f) Restrictions on Transfer. No Series B Warrant or Warrant Shares shall be sold, exchanged or otherwise transferred in violation of Applicable Securities Laws.

Section 6.2 Exchange of Warrants Certificates.

(a) Exchange. One or more Warrant Certificates may, on compliance with the reasonable requirements of the Warrant Agent, be exchanged for one or more Warrant Certificates of different denominations evidencing in the aggregate an equal number of Series B Warrants as the Warrant Certificate or Warrant Certificates being exchanged.

(b) Place of Exchange. Warrant Certificates may be exchanged only at the Warrant Agent's office in Toronto, Ontario or at the Co-Agent's office in Providence, Rhode Island or at any other place designated by the Company with the approval of the Warrant Agent.

(c) Cancellation. Any Warrant Certificate tendered for exchange pursuant to this Section 6.2 shall be surrendered to the Warrant Agent and cancelled.

(d) Authentication of Exchanged Warrant Certificates. The Warrant Agent shall Authenticate all Warrant Certificates necessary to carry out exchanges pursuant to this Section 6.2.

(e) Charges. The Warrant Agent may charge Warranholders requesting an exchange of Warrant Certificates a reasonable sum for each Warrant Certificate issued; and payment of such charges and reimbursement of the Warrant Agent or the Company for any and all taxes or governmental or other charges required to be paid shall be made by the party requesting such exchange as a condition precedent to such exchange.

ARTICLE VII.

OTHER PROVISIONS RELATING TO RIGHTS OF HOLDERS OF WARRANTS

Section 7.1 No Rights or Liability as Shareholder; Notice to Registered Holders. Nothing contained in the Series B Warrants shall be construed as conferring upon the Holder or his, her or its transferees the right to vote or to

receive dividends or to consent or to receive notice as a shareholder in respect of any meeting of shareholders for the election of directors of the Company or of any other matter, or any rights whatsoever as shareholders of the Company. No provision thereof and no mere enumeration therein of the rights or privileges of the Holder shall give rise to any liability of such holder for the Exercise Price hereunder or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

Section 7.2 Lost, Stolen, Mutilated or Destroyed Warrant Certificates. If any Warrant Certificate is lost, stolen, mutilated or destroyed, the Company shall issue, and the Warrant Agent shall countersign and deliver, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent number of Series B Warrants, but only upon receipt of evidence and an affidavit reasonably satisfactory to the Company and the Warrant Agent of the loss, theft or destruction of such Warrant Certificate, and an indemnity of the Company and Warrant Agent for any losses in connection therewith, if requested by either the Company or the Warrant Agent, also satisfactory to them. Applicants for such substitute Warrant Certificates shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company or the Warrant Agent may prescribe and as required by applicable law.

Section 7.3 Restrictive Legends. Any legends which are stamped or imprinted on certificates of Common Shares shall also be stamped or imprinted on any stock certificate for Warrant Shares issued upon the exercise of any Series B Warrant and or stock certificate issued upon the direct or indirect transfer of any such Warrant Shares.

Section 7.4 Cancellation of Warrants. If the Company shall purchase or otherwise acquire Series B Warrants, the Warrant Certificates and any Uncertificated Warrants representing such Series B Warrants shall thereupon be delivered to the Warrant Agent, if applicable, and be cancelled by it and retired. The Warrant Agent shall cancel all Warrant Certificates surrendered for exchange, substitution, transfer or exercise in whole or in part. Such cancelled Warrant Certificates shall thereafter be disposed of in a manner satisfactory to the Company provided in writing to the Warrant Agent.

Section 7.5 Mutilated or Missing Warrant Certificates. If any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed, the Company shall issue, and the Warrant Agent shall countersign and deliver, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent number of Series B Warrants, but only upon receipt of evidence reasonably satisfactory to the Company and the Warrant Agent of the loss, theft or destruction of such Warrant Certificate and an affidavit or the posting of an indemnity or bond, if requested by either the Company or the Warrant Agent, also satisfactory to them. Applicants for such substitute Warrant Certificates shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company or the Warrant Agent may prescribe.

Section 7.6 Right to Convene Meetings.

(a) **Convening of Meeting.** The Warrant Agent at any time and from time to time will convene a meeting of the Warrantholders upon receipt of a written request of the Company, and on being funded and indemnified to its reasonable satisfaction by the Company, against the