

**APPENDIX B-1**

# Memo

**Date:** December 7, 2012  
**To:** Audit Files  
**From:** Audit Team  
**Subject:** Debt Covenants

The purpose of this memo is to document our consideration and assessment of the financial and other covenants associated with First Class Telecommunications Inc.'s ("the Company's") Revolving Debt Agreement (the "Agreement") with First National Bank, set to expire on December 31, 2013. Upon reading Article 4 of the Agreement, the audit team has classified the relevant covenants into two primary categories: financial and other. See below for a description of each significant covenant.

**Financial**

*4.26 Ratio Calculation* — The Company must comply with the maximum total leverage ratio noted below:

**Maximum Total Leverage Ratio Calculation**

The ratio of (x) total consolidated debt at each quarter-end to (y) total consolidated EBITDA at each quarter-end must not equal or exceed 4.50. Note that "total consolidated debt" is defined as the aggregate amount of indebtedness of the borrower and its consolidated subsidiaries as of such date determined on a consolidated basis in accordance with U.S. GAAP. "Total consolidated EBITDA" is defined as consolidated revenue, less consolidated operating expenses.

**Other**

*4.05 Taxes* — The Company and its subsidiaries are required to pay, before delinquency, all material taxes, assessments, and governmental levies, except those contested in good faith.

*4.06 Material Adverse Change Clause* — The Agreement includes a material adverse change clause in which, if it is determined this has occurred, the lender may require the Company to pay the debt immediately in full. The definition of a material adverse change in the Agreement is noted as "(1) a material adverse change on the business, assets, operations, properties, financial condition, or liabilities of holdings, the borrower and subsidiaries taken as a whole (including loss of assets or impairments); (2) a material adverse change on the ability of the borrower or the loan parties (taken as a whole) to perform their respective obligations under any loan document to which the borrower or any of the loan parties is a party; or (3) a material adverse change on the rights of and remedies of the lenders under any loan document."

*4.07 Corporate Existence* — The Company shall do or cause to be done all things necessary to preserve and keep in full force its corporate existence and the rights of the company.