

SETTLEMENT AGREEMENT

B E T W E E N:

**BDO DUNWOODY LIMITED, in its capacity as
Court-Appointed Receiver and Manager of
Buckingham Securities Corporation**

OF THE FIRST PART;

- and -

W.D. LATIMER CO. LIMITED

OF THE SECOND PART;

RECITALS

WHEREAS,

1. Buckingham Securities Corporation ("**Buckingham**") was a securities dealer and provided investment services to its clients, which numbered approximately 1000 on an active basis.
2. W.D. Latimer Co. Limited ("**Latimer**") is a securities dealer.
3. In or around April, 1997, Buckingham and Latimer entered into a written agreement (the "**Latimer Agreement**") for the operation of a margin account (the "**Latimer Account**") by Buckingham at Latimer.
4. On or around July 28, 2000, Buckingham transferred (the "**Transfer**") securities to the Latimer Account. Latimer paid \$1,977,604.89 in connection with the Transfer.
5. On July 6, 2001, the Ontario Securities Commission issued a Temporary Cease Trade Order prohibiting trading in the securities relating to the Latimer Account.
6. By Order of the Honourable Madam Justice Swinton dated July 26, 2001, BDO Dunwoody Limited was appointed receiver and manager (the "**Receiver**") of the assets and undertaking of Buckingham.
7. As at August 16, 2001, Buckingham owed Latimer \$1,902,641.76 in respect of the Latimer Account, with interest accruing at prime plus 4%.

8. Latimer claimed a security interest in the securities in the Latimer Account. The Receiver disputed this claim, on behalf of the clients of Buckingham and a trial was held before the Honourable Mr. Justice Ground from June 3 to 7, 2002.
9. Pursuant to Reasons released October 17, 2002, Justice Ground held that the security interest of Latimer in the securities in the Latimer Account was valid and enforceable and ranked in priority to the claims of clients of Buckingham. The Receiver appealed this decision (the "**Appeal**").
10. Pursuant to Reasons released January 31, 2003, Justice Ground awarded costs to Latimer on a partial indemnity basis.
11. On February 27, 2004, the court approved an agreement between the Receiver and Latimer with respect to the liquidation of certain of the securities held by the Receiver (the "**Liquidation Agreement**").
12. As at April 16, 2004, the amount owed to Latimer is \$2,549,234 (the "**Indebtedness**") calculated as follows: (i) principal of \$1,910,364; (ii) interest of \$513,870; and (iii) costs of \$125,000.
13. As at April 16, 2004, Latimer had collected \$1,358,548 to be applied to the Indebtedness in accordance with the Liquidation Agreement.

NOW THEREFORE, in consideration of the promises and covenants contained in this Settlement Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and with the benefit of legal advice, Buckingham and Latimer hereby agree, subject to court approval, that:

1. **The Payment:** The Receiver shall pay \$595,343 to Latimer immediately following court approval of the within settlement.
2. **Completion of the Liquidation Agreement:** Latimer shall complete the Liquidation Agreement in accordance with the terms therein, subject to the agreement concerning realization of certain shares in Dynamic Fuel Systems Inc.
3. **Refund of Surplus:** In the event that:
 - a. the amount in paragraph 1 above; and
 - b. the amount collected by Latimer under the Liquidation Agreement that is required to be applied to the Indebtedness;exceeds the Indebtedness, Latimer shall forthwith remit such surplus to the

Receiver and any remaining securities to be liquidated under the Liquidation Agreement shall be liquidated subject only to a 1% sales commission in favour of Latimer.

4. **Abandonment of the Appeal:** The Receiver shall abandon the Appeal.
5. **Mutual Release:** Upon receipt of the payment required under paragraph 1 above, the Receiver and Latimer shall execute a mutual release in the form attached as Schedule "A".
6. **Governing Law.** This Settlement Agreement has been made in the Province of Ontario and shall be construed, interpreted and performed in accordance with the laws of Ontario and the applicable laws of Canada. For greater certainty, the validity and enforceability of this Settlement Agreement and the agreements contemplated hereby shall be determined under the laws of Ontario and the applicable laws of Canada unless such agreement specifically provides to the contrary.
7. **Further Assurances.** Each of the parties hereto shall from time to time and at all times hereafter, upon every reasonable request of the other, make, do, execute and deliver or cause to be made, done, executed and delivered all such further acts, deeds and assurances and things as may be necessary in the reasonable opinion of such other party or parties for more effectually implementing and carrying out the true intent and meaning of this Settlement Agreement.
8. **Amendment.** No amendment, modification or termination of this Settlement Agreement shall be effective unless made in writing and executed by all of the parties hereto.
9. **Counterparts.** This Settlement Agreement may be executed in any number of counterparts, and/or by facsimile, each of which shall constitute an original and all of which, taken together, shall constitute one and the same instrument. Any party executing this Settlement Agreement by facsimile shall, forthwith following a request by of the other parties hereto, provide such number of originally executed counterparts of this Settlement Agreement as are required to provide each party hereto with two fully executed original copies of this Settlement Agreement.
10. **Time of the Essence.** Time is of the essence in this Settlement Agreement.
11. **Enurement.** The provisions hereof shall enure to the benefit of and be binding upon each party hereto and their respective heirs, successors and/or assigns.
12. The obligations of the parties hereunder are conditional upon the Receiver obtaining

an order of the Ontario Superior Court of Justice (Commercial List) approving the terms of this Settlement Agreement, which order shall be obtained and shall not be stayed prior to May 12, 2004.

Dated in Toronto this day of April, 2004

**BDO DUNWOODY LIMITED, in its capacity as
Court-Appointed Receiver and Manager of
Buckingham Securities Corporation**

I have authority to bind the corporation

Dated in Toronto this day of April, 2004

W.D. LATIMER CO. LIMITED

I have authority to bind the corporation

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