

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS FOUR MONTHS AND ONE DAY AFTER THE LATER OF (I) JANUARY 31, 2017, AND (II) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY OF CANADA.**

**SOLACE HEALTH INC.**

**SENIOR SECURED CONVERTIBLE DEBENTURE DUE JULY 31, 2018**

**DEBENTURE**

**CERTIFICATE NUMBER: CD-1A-2017**

**PRINCIPAL AMOUNT: CDN\$9,400,000**

**SOLACE HEALTH INC.**, a corporation incorporated under the laws of the Province of Ontario, Canada (the “**Borrower**” or the “**Company**”), for value received, hereby acknowledges itself indebted and promises to pay to or to the order of Gundy Co. in Trust for MMCAP International Inc. SPC Acct [REDACTED], at 161 Bay Street, 4th Floor, Toronto ON M5J 2S8 as nominee for MMCAP International Inc. SPC (hereinafter referred to as the “**Lender**” or the “**Debentureholder**”), the principal amount of nine million four hundred thousand dollars (\$9,400,000) (the “**Principal Amount**”) in lawful money of Canada in the manner hereinafter provided at the foregoing address of the nominee, or at such other place or places as the Lender may designate by notice in writing to the Borrower, on July 31, 2018, or such earlier date as the Principal Amount may become due and payable (the “**Maturity Date**”), and to pay interest to the Lender on the Principal Amount outstanding from time to time owing hereunder to the date of payment as hereinafter provided, both before and after maturity or demand, default and judgment.

The Debentureholder has the right, following a Liquidity Event (as defined herein), prior to 5:00 p.m. (Eastern Standard time) on the earlier of the Business Day (as defined herein) immediately preceding: (i) the Maturity Date, and (ii) the Business Day immediately preceding the date fixed for the redemption of this Debenture, to convert all or any portion of the outstanding Principal Amount into Common Shares (as defined herein), at a price, with respect to the Principal Amount, equal to the Conversion Price (as defined herein). The Borrower shall be entitled to require the Debentureholder to convert all but not less than all of the Principal Amount outstanding under this Debenture at the Conversion Price if, for any twelve (12) consecutive trading days following the occurrence of a Liquidity Event and prior to the Maturity Date, the VWAP (as defined herein) of the Common Shares on the Exchange (as defined herein) equals or exceeds 150% of the Liquidity Event Price (as defined herein) and, provided that such VWAP of the Common Shares is not less than \$1.15 per share. Notwithstanding the foregoing, the Company shall not be permitted to force conversion of the Debenture if the Common Shares issuable upon such conversion will be subject to restrictions on resale in Canada.

Unless the Lender exercises the conversion rights attached to this Debenture, the Principal Amount owing, or the portion of the principal amount which has yet to be converted, together with any accrued and unpaid interest owing thereon and all other amounts now or hereafter payable hereunder (collectively, the “**Obligations**”) shall be due and payable on the Maturity Date in accordance with the terms hereof. This Debenture is issued subject to the terms and conditions appended hereto as Schedule A.

IN WITNESS WHEREOF, the Borrower has caused this Debenture to be executed by a duly authorized officer.

DATED for reference this 31 day of January, 2017.

**SOLACE HEALTH INC.**

Per: (signed) “Basem Hanna”  
Authorized Signatory

*(See terms and conditions attached hereto)*

## Schedule A – Terms and Conditions for Senior Secured Convertible Debenture

### ARTICLE 1 – INTERPRETATION

#### Section 1.1 Definitions

In this Debenture, the following terms shall have the following meanings:

- (1) **“Accelerated Conversion Right”** has the meaning attributed thereto in Section 4.1(2);
- (2) **“ACMPR”** means the *Access to Cannabis for Medical Purposes Regulations*, SOR/2016-230;
- (3) **“Business”** means the business of the Borrower being the licensed production, sale and distribution of marijuana for medical purposes and all related or ancillary matters, including but not limited to patient support, patient aggregation and medical devices ;
- (4) **“Business Day”** means a day other than a Saturday, Sunday or other day on which commercial banks in Toronto, Ontario, Canada are authorized by law to close;
- (5) **“Canadian Securities Laws”** means the *Securities Act* (Ontario) and the securities laws of any other province or territory of Canada, if applicable, and the rules, regulations and policies of any Canadian securities regulatory authority administering such securities laws, as the same shall be in effect from time to time;
- (6) **“Capital Lease”** means a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with the accounting standards applicable to such lessee;
- (7) **“Change of Control”** means:
  - (a) any transaction (whether by purchase, merger or otherwise) whereby a person or persons acting jointly or in concert directly or indirectly acquires the right to cast, at a general meeting of shareholders of the Borrower, more than 50% of the votes that may be ordinarily cast at a general meeting;
  - (b) the Borrower’s amalgamation, consolidation or merger with or into any other person, any merger of another person into the Borrower, unless the holders of voting securities of the Borrower immediately prior to such amalgamation, consolidation or merger hold securities representing 50% or more of the voting control or direction in the Borrower or the successor entity upon completion of the amalgamation, consolidation or merger; or
  - (c) any conveyance, transfer, sale lease or other disposition of all or substantially all of the Borrower’s and the Borrower’s subsidiaries’ assets and properties, taken as a whole, to another arm’s length person;
- (8) **“Collateral Debenture”** means the debenture granting a registered first charge security interest over the Property in favour of Lender in the form attached as Schedule C hereto;
- (9) **“Common Shares”** means the Class B Common shares in the capital of the Borrower or the common shares of the continuing corporation or other resulting issuer formed as a result of a Merger;
- (10) **“Controlled Subsidiary”** in respect of the Borrower means a Subsidiary of which substantially all of the equity or voting interests is owned or controlled, directly or indirectly, by the Borrower or its affiliates or associates, and any partnership or joint venture if 100% interest in the profits or capital thereof is owned by the Borrower or its affiliates or associates or one or more of their respective Controlled Subsidiaries;
- (11) **“Conversion Price”** means a price determined in accordance with the following:

- (i) if (i) the date of conversion of this Debenture is on or prior to July 31, 2017, or (ii) the Borrower has been issued a license from Health Canada to cultivate pursuant to the ACMPR and such license was issued on or before July 31, 2017, the Conversion Price will be \$0.75 per Common Share, representing approximately a 67% premium on the reference price of \$0.45, being a ratio of approximately 1,333,333 Common Shares per CDN\$1,000 principal amount of this Debenture; and
  - (ii) if, the date of conversion of this Debenture is following July 31, 2017 and the Borrower has either (i) not been issued a license from Health Canada to cultivate pursuant to the ACMPR , or (ii) has been issued a license to cultivate under the ACMPR following July 31, 2017, the Conversion Price will be \$0.59 per Common Share, representing approximately a 31% premium to the reference price of \$0.45, being a ratio of approximately 1,694.915 Common Shares per CDN\$1,000 principal amount of this Debenture (hereinafter referred to as the “**Secondary Conversion Price**”).
- (12) “**Conversion Notice**” has the meaning attributed thereto in Section 4.2(1);
  - (13) “**Conversion Right**” has the meaning attributed thereto in Section 4.1(1);
  - (14) “**Converted Debenture Amount**” has the meaning attributed thereto in Section 4.1(1);
  - (15) “**Debenture**” means this senior secured convertible debenture;
  - (16) “**Exchange**” means the TSX Venture Exchange or the Canadian Securities Exchange, or such other Canadian stock exchange as approved by the holder of this Debenture, acting reasonably, on which the Common Shares are listed and posted for trading after completion of the Liquidity Event;
  - (17) “**Event of Default**” has the meaning attributed thereto in Section 6.1;
  - (18) “**Interest Payment Date**” means September 30 and March 31 in each year, commencing on March 31, 2017;
  - (19) “**Lien**” means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property of such Person;
  - (20) “**Liquidity Event**” means the Borrower effects a transaction pursuant to which it will become a “reporting issuer” under applicable Canadian Securities Laws (a “**Reporting Issuer**”) and its Common Shares or the common shares of any resulting issuer would be listed and posted for trading on an Exchange, which may include, without limitation, an initial public offering, a reverse take-over or a Merger with existing a Reporting Issuer;
  - (21) “**Liquidity Event Price**” means the transaction price assigned to each Common Share of the Borrower or resulting issuer on the completion of or in connection with a Liquidity Event;
  - (22) “**Maturity Date**” means July 31, 2018;
  - (23) “**Merger**” means any transaction (whether by way of consolidation, amalgamation, merger, transfer, sale or lease) whereby all or substantially all of the Borrower’s assets would become the property of any other Person, or, in the case of any such consolidation, amalgamation or merger, of the continuing corporation or other entity resulting therefrom;
  - (24) “**Person**” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof;
  - (25) “**Permitted Acquisition**” means, with respect to any Person, any transaction by which such Person acquires as a going concern the business of, or all or substantially all of the assets of any corporation or other

business entity or division thereof or any other person, whether through purchase of assets, purchase of shares or other equity interests, amalgamation, merger, joint venture or otherwise, but in each case only if:

- (a) no Event of Default is continuing on the date of the acquisition or would occur as a result of such acquisition;
- (b) the Person or Persons from whom the acquisition is made are at arm's length to such Person;
- (c) the relevant business is substantially the same as that carried on by such Person; and
- (d) the aggregate purchase price (including associated expenses) for the acquisition does not exceed the fair market value of such business;

(26) **"Permitted Acquisition Subordination Requirement"** has the meaning given to such term in item (d) of the definition of "Permitted Secured Debt";

(27) **"Permitted Encumbrances"** has the meaning given to such term in Section 6.2(3);

(28) **"Permitted Secured Debt"** means, with respect to the Borrower or its Subsidiaries, if any, any Secured Debt of the Borrower or such Subsidiaries that:

- (a) is existing at the date hereof;
- (b) is incurred or assumed by the Borrower or such Subsidiaries in connection with the purchase of real or personal property (other than the Property) in the ordinary course of the Borrower's or such Subsidiaries' business, provided that the applicable Lien extends only to such property and its proceeds, and secures an amount not exceeding the purchase price of such property;
- (c) is a Capital Lease obligation of the Borrower or such Subsidiaries;
- (d) is incurred or assumed by the Borrower or such Subsidiaries in connection with a Permitted Acquisition, provided that all security interests or collateral granted as security for payment and performance in connection with such Permitted Acquisition are fully postponed and subordinated to the indebtedness owed to and security held by the Debentureholder (the **"Permitted Acquisition Subordination Requirement"**). Notwithstanding the foregoing, the Permitted Acquisition Subordination Requirement shall not apply to any Permitted Acquisition, provided that any applicable Lien extends only to such property (including, any real and personal property of any business acquired in connection with a Permitted Acquisition) and its proceeds, and secures an amount not exceeding the purchase price of such property (including, any real and personal property of any business acquired in connection with a Permitted Acquisition); or
- (e) is Secured Debt incurred by the Borrower or such Subsidiaries in connection with any extension, renewal or refinancing of any of the foregoing provided that the applicable outstanding principal amount is not increased.

(29) **"Permitted Subordinated Debt"** means any and all indebtedness incurred or assumed by the Borrower or its Subsidiaries, if any, after the date of issue of this Debenture in respect of which all obligations of payment and performance, together with all security interests or collateral granted as security for payment and performance, are fully postponed and subordinated to the indebtedness owed to and security held by the Debentureholder, including, without limitation, any indebtedness incurred for the purchase or lease of specifically identified equipment, for which a purchase money security interest (as defined in the *Personal Property Security Act* (Ontario)) is granted;

(30) **"Property"** means the real property located at 3610 Mavis Road, Mississauga, Ontario, Canada;

(31) **"Secured Debt"** means, with respect to any Person, any obligation of such Person for borrowed money that is secured in any manner by any Lien on any real or personal property of such Person;

(32) **“Subsidiary”** in respect of the Borrower means an issuer that is controlled directly or indirectly by Borrower and includes a subsidiary of that subsidiary, and as to any Person, any corporation or other business entity in which such Person or one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries;

(33) **“Taxes”** means any present or future income and other taxes, levies, rates, royalties, deductions, withholdings, assessments, fees, dues, duties, imposts and other charges of any nature whatsoever, together with any interest and penalties, additions to tax and other additional amounts, levied, assessed or imposed by any governmental authority;

(34) **“trading day”** means a day on which the Exchange is open for trading (or if the Borrower’s Common Shares are not then listed on the Exchange, such other recognized stock exchange or quotation system on which the Common Shares may trade or be quoted); and

(35) **“VWAP”** means volume-weighted average price.

### **Section 1.2 Headings**

The inclusion of headings in this Debenture is for convenience of reference only and shall not affect the construction or interpretation hereof.

### **Section 1.3 Currency**

Unless otherwise indicated, all amounts in this Debenture are stated and shall be paid in currency of Canada.

### **Section 1.4 Number, Gender and Persons**

Unless the context otherwise requires, words importing the singular in number only shall include the plural and vice versa, words importing the use of gender shall include the masculine, feminine and neuter genders and words importing persons shall include individuals, corporations, partnerships, associations, trusts, unincorporated organizations, governmental bodies and other legal or business entities.

### **Section 1.5 Severability**

If any provision of this Debenture is determined by a Court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such determination shall not impair or affect the validity, legality or enforceability of the remaining provisions hereof, and each such provision shall be interpreted in such a manner as to render them valid, legal and enforceable to the greatest extent permitted by applicable law. Each provision of this Debenture is declared to be separate, severable and distinct.

### **Section 1.6 Entire Agreement**

This Debenture, including any schedules attached hereto, constitutes the entire agreement between the Borrower and the Lender relating to the subject matter hereof, and supersedes all prior agreements, representations, warranties, statements, promises, information, arrangements, understandings, conditions or collateral agreements, whether oral or written, express or implied, with respect to the subject matter hereof.

## **ARTICLE 2 – PAYMENT OF PRINCIPAL, INTEREST AND OTHER CONSIDERATIONS**

### **Section 2.1 Repayment of Principal**

Subject to the terms and conditions hereof, the Principal Amount outstanding on this Debenture, together with any accrued and unpaid interest owing thereon, shall be repaid by the Borrower to the Lender on the Maturity Date, subject to the early redemption of the Debenture, as applicable, pursuant to the terms set forth in Section 3.1.

## **Section 2.2 Interest Payable**

Interest on the Principal Amount outstanding under this Debenture shall be at the rate of (i) twelve percent (12.0%) per annum during the first 12 months after the date of issue of this Debenture, and (ii) eighteen percent (18.0%) per annum during the period commencing on the date that is 12 months after the date of issue of this Debenture; provided that interest on the Principal Amount shall immediately be reduced to 6.0% per annum on the date of a Liquidity Event. Interest shall be calculated and payable in cash semi-annually, not in advance, on September 30 and March 31 in each year, accrued from and including the date of issue. The March 31, 2017 interest payment will represent accrued interest for the period from the date of issue of this Debenture to March 31, 2017. Any interest payments that are not paid by the Borrower when due will accrue and be added to the Principal Amount.

## **Section 2.3 Rank**

Any outstanding indebtedness of the Borrower shall be subordinated to this Debenture as of the date of issue of this Debenture.

## **Section 2.4 Guarantee**

This Debenture is entitled to and shall have the benefit of a guarantee of the Controlled Subsidiaries existing on or established after the date of this Debenture of all indebtedness and liability (present and future, direct or indirect, absolute or contingent, matured or not) of the Borrower to the Lender under or in connection with this Debenture in favour of the Lender (the “**Guarantees**”). The Controlled Subsidiaries shall guarantee the obligations of the Borrower set out herein and shall immediately upon becoming Controlled Subsidiaries execute and deliver the form of guarantee and confirmation appended hereto as Schedule B. As security for the obligations under the Guarantees, the Controlled Subsidiaries, if any, shall each grant the Debentureholder a security interest over all of the Controlled Subsidiaries’ respective present and after acquired all freehold, real or immovable property, including, without limitation, the Property, and personal property, in which the Controlled Subsidiaries have rights, of whatsoever nature or kind and wherever situate. The security granted to the Debentureholder by each of the Subsidiaries shall be evidenced by one or more registered first charge mortgages and general security agreements appended hereto as Schedule G entered into between each of the Controlled Subsidiaries and the Debentureholder.

# **ARTICLE 3 – REDEMPTION OR PURCHASE OF DEBENTURE**

## **Section 3.1 Mandatory Redemption**

(1) Subject to market conditions, the Borrower shall use reasonable best efforts to effect a Liquidity Event on or prior to the date that is eight (8) months from the date of issue of this Debenture (the “**Liquidity Event Deadline**”). Subject to the provisions of this Section 3.1, the Lender shall have the right to redeem the Principal Amount of this Debenture in full in the event the Borrower has not announced a Liquidity Event on or before the Liquidity Event Deadline. If the Lender exercises such right to redeem this Debenture, the Borrower shall be required to repay the Principal Amount of this Debenture in full at a price equal to 125% of the outstanding Principal Amount of this Debenture and to pay to the Lender all of the remaining interest payments up to and including the Maturity Date.

(2) The Liquidity Event Deadline may be extended by an additional three (3) months with the consent of the Lender, acting reasonably, if: (i) the Borrower has used reasonable best efforts to enter into standard documentation such that a Liquidity Event can be announced and any such Liquidity Event has been temporarily delayed through no fault of the Borrower, and (ii) the Borrower pays to the Debentureholder on the date of the Liquidity Event Deadline an interest penalty in cash in an amount equal to ten percent (10.00%) of the outstanding Principal Amount of this Debenture in respect of which no Conversion Rights have been exercised.

(3) The Lender shall provide not less than thirty (30) days prior written notice (the “**Redemption Notice**”) to the Borrower of its intention to redeem this Debenture pursuant to this Section 3.1 and such notice shall set forth the redemption date.

### **Section 3.2 Redemption by the Borrower**

Notwithstanding any other provision in this Debenture, this Debenture may be redeemed in whole or in part at the option of the Borrower on not more than 60 days and not less than 30 days prior written at a price equal to 125% of the outstanding Principal Amount, including any accrued and unpaid interest.

### **Section 3.3 Redemption or Conversion if Change of Control**

Commencing thirty (30) days prior to the consummation of a Change of Control, the Debentureholder shall, in its sole discretion, have the right to require the Borrower to, either: (i) purchase this Debenture at 110% of the outstanding Principal Amount hereof plus unpaid interest to the Maturity Date; or (ii) if the Change of Control results in a new issuer, convert the Debenture into a replacement debenture of the new issuer in the aggregate principal amount of 101% of the aggregate principal amount of the Debenture on substantially equivalent terms to those terms contained herein; or (iii) if a Liquidity Event has already taken place or if the Change of Control itself is a Liquidity Event, convert this Debenture at the Conversion Price.

### **Section 3.4 Notice of Change of Control**

Upon the occurrence of any event constituting or reasonably likely to constitute a Change of Control, the Borrower shall give written notice to the Lender of such Change of Control at least thirty (30) days prior to the effective date of any such Change of Control and another written notice on or immediately after the effective date of such Change of Control.

## **ARTICLE 4 – CONVERSION**

### **Section 4.1 Conversion Right.**

(1) Following a Liquidity Event, upon and subject to the terms and conditions hereinafter set forth, the Lender shall, upon giving the Borrower thirty (30) days advance written notice, have the right (the “**Conversion Right**”), but not the obligation, at any time, and from time to time, up to and including the business day immediately preceding the Maturity Date, to notify the Borrower that it wishes to exchange or convert, for no additional consideration, all or any part of the then outstanding Principal Amount of this Debenture and any accrued and unpaid interest (the “**Converted Debenture Amount**”) into fully paid and non-assessable Common Shares at the Conversion Price in effect on the Issue Date (as hereinafter defined), provided that the Lender must exchange or convert the Principal Amount of this Debenture in a minimum amount of \$250,000, unless the Principal Amount remaining is less than \$250,000 in which case, the entire remaining amount (including any accrued and unpaid interest) shall be converted. For greater certainty, if the Lender is electing to convert all or a portion of the Principal Amount, then the applicable amount of accrued and unpaid interest on the Principal Amount being converted must be paid by the Borrower up to, but excluding, the applicable date of conversion in accordance with Section 2.2.

(2) Following a Liquidity Event, upon and subject to the terms and conditions hereinafter set forth, the Borrower shall have the right (the “**Accelerated Conversion Right**”) to require the Debentureholder to convert all but not less than all of the Principal Amount outstanding under this Debenture and any accrued and unpaid interest at the Conversion Price upon giving the Debentureholder thirty (30) days advance written notice if, for any twelve (12) consecutive trading days prior to the Maturity Date, the VWAP of the Common Shares on the Exchange equals or exceeds 150% of the Liquidity Event Price and provided such VWAP is not less than \$1.15 per Common Share. In such an event, the applicable amount of accrued and unpaid interest on the Principal Amount being converted must be paid by the Borrower up to, but excluding, the applicable date of conversion in accordance with Section 2.2. Notwithstanding the foregoing, the Borrower shall not be permitted to force conversion of the Debenture if the Common Shares issuable upon such conversion will be subject to resale restrictions in Canada.

(3) The Conversion Right and Accelerated Conversion Right shall extend only to the maximum number of whole Common Shares into which the Principal Amount of this Debenture or any part thereof may be converted in accordance with this Section 4.1. Fractional interests in Common Shares shall be adjusted in the manner provided in Section 4.4.

## Section 4.2 Conversion Procedure

(1) The Conversion Right may be exercised by the Lender by completing and signing the notice of conversion (the “**Conversion Notice**”) attached hereto as Schedule D, and delivering the Conversion Notice and this Debenture to the Borrower. The Conversion Notice shall provide that the Conversion Right is being exercised, shall specify the Converted Debenture Amount and shall set out the date (the “**Issue Date**”) on which Common Shares are to be issued upon the exercise of the Conversion Right (such date to be no earlier than thirty (30) Business Days after the day on which the Conversion Notice is delivered to the Borrower). The conversion shall be deemed to have been effected immediately prior to the close of business on the Issue Date and the Common Shares issuable upon conversion shall be deemed to be issued as fully paid and non-assessable at such time. Within ten (10) Business Days after the Issue Date, a certificate or a direct registration statement in respect of the required number of Common Shares shall be issued to the Lender. If less than all of the Principal Amount of this Debenture is the subject of the Conversion Right, then within ten (10) Business Days after the Issue Date, the Borrower shall deliver to the Lender a replacement Debenture in the form hereof and in respect of the Principal Amount of the unconverted principal balance hereof, and this Debenture shall be cancelled. If the Conversion Right is being exercised in respect of the entire Principal Amount of this Debenture, this Debenture shall be cancelled. With the Conversion Notice, the Lender shall provide the Borrower with its written calculation of the amount of accrued and unpaid interest on the Principal Amount which is the subject of the Conversion Right pursuant to the Conversion Notice, up to the date of that Conversion Notice and a per diem amount thereon.

(2) The Accelerated Conversion Right may be exercised by the Borrower by delivering thirty (30) days advance written notice (the “**Accelerated Conversion Notice**”) to the Lender. The Accelerated Conversion Notice shall provide that the Accelerated Conversion Right is being exercised, shall specify the twenty (20) consecutive trading days on the Exchange on which the VWAP of the Common Shares equaled or exceeded 150% of the Liquidity Event Price and shall set out the Issue Date on which Common Shares are to be issued upon the exercise of the Accelerated Conversion Right (such date to be no more than ten (10) Business Days following the expiration of the applicable thirty (30) day notice period). The conversion shall be deemed to have been effected immediately prior to the close of business on the Issue Date and the Common Shares issuable upon conversion shall be deemed to be issued as fully paid and non-assessable at such time. Within ten (10) Business Days after the Issue Date, a certificate or direct registration statement in respect of the required number of Common Shares shall be issued to the Lender. If the Accelerated Conversion Right is exercised in respect of this Debenture, this Debenture shall be cancelled. With the Accelerated Conversion Notice, the Borrower shall provide the Lender with its written calculation of the amount of accrued and unpaid interest on the Principal Amount subject to the Accelerated Conversion Notice up to the date of that Conversion Notice and a per diem amount thereon, together with payment in accordance with Section 2.2 within ten (10) Business Days of such conversion.

## Section 4.3 Adjustment of Conversion Price

The Conversion Price in effect at any date shall be subject to adjustment from time to time as follows:

- (1) If and whenever at any time prior to the Maturity Date, the Borrower shall:
  - (a) subdivide or re-divide the outstanding Common Shares into a greater number of Common Shares;
  - (b) reduce, combine or consolidate the outstanding Common Shares into a smaller number of Common Shares;
  - (c) issue Common Shares (or securities convertible into or exchangeable for Common Shares) to the holders of all or substantially all of the outstanding Common Shares by way of stock dividend; or
  - (d) make a distribution on its outstanding Common Shares payable in Common Shares or securities exchangeable for or convertible into Common Shares,

the Conversion Price in effect on the effective date of such subdivision, re-division, reduction, combination or consolidation or on the record date for such issue of Common Shares (or securities convertible into or exchangeable for Common Shares) by way of a stock dividend or other distribution, as the case may be, shall, in the case of the events referred to in Sections 4.3(1)(a), (c) and (d) above, be decreased in proportion to the increase in the number



of outstanding Common Shares resulting from such subdivision, re-division or dividend (including, in the case where securities convertible into or exchangeable for Common Shares are issued, the number of Common Shares that would have been outstanding had such securities been converted into or exchanged for Common Shares on such effective or record date) or shall, in the case of the events referred to in Section 4.3(1)(b) above, be increased in proportion to the decrease in the number of outstanding Common Shares resulting from such reduction, combination or consolidation on such effective or record date. Such adjustment shall be made successively whenever any event referred to in this Section 4.3(1) shall occur. Any such issue of Common Shares (or securities convertible into or exchangeable for Common Shares) by way of a stock dividend or other distribution shall be deemed to have been made on the record date for the stock dividend or other distribution for the purpose of calculating the number of outstanding Common Shares under Sections 4.3(2) and (3); to the extent that any such securities are not converted into or exchanged for Common Shares prior to the expiration of the conversion or exchange right, the Conversion Price shall be readjusted effective as at the date of such expiration to the Conversion Price which would then be in effect based upon the number of Common Shares actually issued on the exercise of such conversion or exchange right.

(2) If and whenever at any time prior to the Maturity Date, the Borrower shall fix a record date for the issuance of rights, options or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than forty-five (45) days after such date of issue (such period from the record date to the date of expiry being referred to in this Section 4.3(2) as the “**Rights Period**”), to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for Common Shares) (such subscription price per Common Share (inclusive of any cost of acquisition of securities exchangeable for or convertible into Common Shares in addition to any direct cost of Common Shares) being referred to in this Section 4.3(2) as the “**Per Share Cost**”), the Borrower shall give written notice to the Lender with respect thereto (any of such events herein referred to as a “**Rights Offering**”), and the Lender shall have fifteen (15) days after receipt of such notice to elect to convert any or all of the Principal Amount of this Debenture into Common Shares at the then applicable Conversion Price and otherwise on terms and conditions set out in this Debenture. If the Lender elects to convert any or all of the Principal Amount of this Debenture, such conversion shall occur immediately prior to the record date for the issuance of such rights, options or warrants. If the Lender elects not to convert any of the Principal Amount of this Debenture, there shall continue to be an adjustment to the Conversion Price as a result of the issuance of such rights, options or warrants, in the manner hereinafter provided. The Conversion Price will be adjusted effective immediately after the end of the Rights Period to a price determined by multiplying the Conversion Price in effect immediately prior to the end of the Rights Period by a fraction:

- (a) the numerator of which is the aggregate of:
  - (i) the number of Common Shares outstanding as of the record date for the Rights Offering; and
  - (ii) the number determined by dividing the product of the Per Share Cost and:
    - (A) where the event giving rise to the application of this Section 4.3(2) was the issue of rights, options or warrants to the holders of Common Shares under which such holders are entitled to subscribe for or purchase additional Common Shares, the number of Common Shares so subscribed for or purchased during the Rights Period, or
    - (B) where the event giving rise to the application of this Section 4.3(2) was the issue of rights, options or warrants to the holders of Common Shares under which such holders are entitled to subscribe for or purchase securities exchangeable for or convertible into Common Shares, the number of Common Shares for which those securities so subscribed for or purchased during the Rights Period could have been exchanged or into which they could have been converted during the Rights Period,

by the Current Market Price (as hereinafter defined) of the Common Shares as of the record date for the Rights Offering; and

- (iii) the denominator of which is
  - (A) in the case described in subparagraph 4.3(2)(a)(ii)(A), the number of Common Shares outstanding, or
  - (B) in the case described in subparagraph 4.3(2)(a)(ii)(B), the number of Common Shares that would be outstanding if all the Common Shares described in subparagraph 4.3(2)(a)(ii)(B) had been issued,

as at the end of the Rights Period.

“**Current Market Price**” of the Common Shares at any date, means the weighted average of the sale prices per Common Share at which the Common Shares have traded on the Exchange or, if the Common Shares are not listed on any stock exchange, then on the over-the-counter market, for any 20 consecutive trading days selected by the Borrower commencing not later than 45 trading days and ending no later than five (5) trading days before such date; provided, however, if such Common Shares are not traded during such 45 day period for at least 20 consecutive trading days, the simple average of the following prices established for each of 20 consecutive trading days selected by the Borrower commencing not later than 45 trading days before such date:

- (a) the average of the bid and ask prices for each day on which there was no trading, and
- (b) the closing price of the Common Shares for each day that there was trading,

or in the event that at any date the Common Shares are not listed on the Exchange or on the over-the-counter market, the current market price shall be as determined by the directors of the Borrower or such firm of independent chartered accountants as may be selected by the directors of the Borrower, acting reasonably, and in good faith in their sole discretion; for these purposes, the weighted average price for any period shall be determined by dividing the aggregate sale prices during such period by the total number of Common Shares sold during such period.

Any Common Shares owned by or held for the account of the Borrower or any subsidiary or affiliate (as defined in the *Securities Act* (Ontario)) of the Borrower will be deemed not to be outstanding for the purpose of any such computation under this Section 4.3(2).

If by the terms of the rights, options or warrants referred to in this Section 4.3(2), there is more than one purchase, conversion or exchange price per Common Share, the aggregate price of the total number of additional Common Shares offered for subscription or purchase, or the aggregate conversion or exchange price of the convertible securities so offered, will be calculated for purposes of the adjustment on the basis of

- (c) the lowest purchase, conversion or exchange price per Common Share, as the case may be, if such price is applicable to all Common Shares which are subject to the rights, options or warrants, and
- (d) the average purchase, conversion or exchange price per Common Share, as the case may be, if the applicable price is determined by reference to the number of Common Shares acquired.

To the extent that any adjustment in the Conversion Price occurs pursuant to this Section 4.3(2) as a result of the fixing by the Borrower of a record date for the distribution of rights, options or warrants referred to in this Section 4.3(2), the Conversion Price will be readjusted immediately after the expiration of any relevant exchange, conversion or exercise right to the Conversion Price which would then be in effect based upon the number of Common Shares actually issued and remaining issuable after such expiration, and will be further readjusted in such manner upon expiration of any further such right.

If the Lender has exercised its Conversion Right, or the Borrower has exercised the Accelerated Conversion Right, in accordance herewith during the Rights Period, the Lender will, in addition to the Common Shares to which it is otherwise entitled upon such exercise, be entitled to that number of additional Common Shares equal to the result obtained when the difference, if any, between the Conversion Price in effect immediately prior to, and the Conversion Price in effect immediately following the end of such Rights Offering pursuant to this Section 4.3(2), is multiplied by the number of Common Shares received upon the exercise of the Conversion Right or Accelerated

Conversion Right during such period, and the resulting product is divided by the Conversion Price as adjusted for such Rights Offering pursuant to this Section 4.3(2); provided that no fractional Common Shares will be issued. Such additional Common Shares will be deemed to have been issued to the Lender immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to the Lender within ten Business Days following the end of the Rights Period.

(3) If and whenever at any time prior to the Maturity Date, the Borrower shall fix a record date for the making of a distribution to all or substantially all the holders of its outstanding Common Shares of (i) shares of any class other than Common Shares (or other than securities convertible into or exchangeable for Common Shares), or (ii) rights, options or warrants (other than rights, options or warrants referred to in Section 4.3(2)), or (iii) evidences of its indebtedness, or (iv) assets (other than dividends paid in the ordinary course) then, in each such case, the Borrower shall give written notice to the Lender with respect thereto, and the Lender shall have fifteen (15) days after receipt of such notice to elect to convert any or all of the Principal Amount of this Debenture into Common Shares at the then applicable Conversion Price and otherwise on terms and conditions set out in this Debenture. If the Lender elects to convert any or all of the Principal Amount of this Debenture, such conversion shall occur immediately prior to the record date for the making of such distribution. If the Lender elects not to convert any of the Principal Amount of this Debenture, there shall continue to be an adjustment to the Conversion Price as a result of the making of such distribution, (herein referred to as a “**Special Distribution**”) determined in the manner hereafter set out. In this Section 4.3(3) the term “**dividends paid in the ordinary course**” shall include the value of any securities or other property or assets distributed in lieu of cash dividends paid in the ordinary course at the option of shareholders.

The Conversion Price will be adjusted effective immediately after such record date to a price determined by multiplying the Conversion Price in effect on such record date by a fraction:

- (a) the numerator of which is:
  - (i) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less
  - (ii) the aggregate fair market value (as determined by action by the directors of the Company, acting reasonably) to the holders of the Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and
- (b) the denominator of which is the number of Common Shares outstanding on such record date multiplied by the Current Market Price of the Common Shares on such record date.

Any Common Shares owned by or held for the account of the Company or any subsidiary or affiliate (as defined in the *Securities Act* (Ontario)) of the Company will be deemed not to be outstanding for the purpose of any such computation.

(4) In the case of any reclassification of, or other change in, the outstanding Common Shares pursuant to a Merger, if the Lender elects not to redeem this Debenture in accordance with Section 3.3, the Lender may elect, prior to the effective date of such Merger, to convert any or all of the Principal Amount of this Debenture into Common Shares at the then applicable Conversion Price and otherwise on terms and conditions set out in this Debenture. To exercise such right the Lender must provide a notice in writing to the Borrower no later than seven (7) days prior to the effective date of such Merger, failing which the Lender’s right to convert this Debenture as a consequence of such Merger shall cease. If the Lender elects to convert any or all of the Principal Amount of this Debenture, such conversion shall occur immediately prior to the effective date of such Merger. If the Lender elects not to convert any of the Principal Amount of this Debenture, the Conversion Price in effect after the effective date of such Merger shall be increased or decreased, as the case may be, in proportion to any decrease or increase in the number of outstanding Common Shares resulting from such Merger so that the Lender, upon exercising the Conversion Right or Accelerated Conversion Right after the effective date of such Merger, will be entitled to receive the aggregate number of Common Shares or other securities, if any, which the Lender would have been entitled to receive as a result of such Merger if, on the effective date thereof, the Lender had been the registered holder of the number of Common Shares to which the Lender was theretofore entitled upon exercise of the Conversion Right or Accelerated Conversion Right.

(5) In the case of any reclassification of, or other change in, the outstanding Common Shares (other than a change referred to in Section 4.3(1), Section 4.3(2), Section 4.3(3) or 4.3(4) hereof), the Conversion Price shall be adjusted in such manner, if any, and at such time, as the Board of Directors of the Borrower determines to be appropriate on a basis consistent with the intent of this Section 4.3; provided that if at any time a dispute arises with respect to adjustments provided for in this Article 4, such dispute will be conclusively determined by the auditors of the Borrower or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by action by the directors of the Borrower, acting reasonably, and any such determination will be binding on the Borrower and the Lender. The Borrower will provide such auditors or accountants with access to all necessary records of the Borrower. If and whenever at any time after the date hereof there is a reclassification or redesignation of the Common Shares outstanding at any time or change of the Common Shares into other shares or into other securities (other than as set out in Section 4.3(1), (2), (3) or (4)), or a consolidation, amalgamation or merger of the Company with or into any other corporation or other entity (other than a consolidation, amalgamation or merger which does not result in any reclassification or redesignation of the outstanding Common Shares or a change of the Common Shares into other shares and other than as set forth in Section 4.3(4)), or a transfer of the undertaking or assets of the Company as an entirety or substantially as an entirety to another corporation or other entity (any of such events being called a “**Capital Reorganization**”), the Lender, upon the exercising the Conversion Right or Accelerated Conversion Right, after the effective date of such Capital Reorganization, will be entitled to receive in lieu of the number of Common Shares to which the Lender was theretofore entitled upon such exercise, the aggregate number of shares, other securities or other property, if any, which the Lender would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, the Lender had been the registered holder of the number of Common Shares to which such Lender was theretofore entitled upon exercise of the Conversion Right or Accelerated Conversion Right. If determined appropriate by action of the directors of the Company, appropriate adjustments will be made as a result of any such Capital Reorganization in the application of the provisions set forth in this Section 4.3 with respect to the rights and interests thereafter of the Lender to the end that the provisions set forth in this Section 4.3 will thereafter correspondingly be made applicable as nearly as may reasonably be in relation to any shares, other securities or other property thereafter deliverable upon the exercise of the Conversion Right or Accelerated Conversion Right. Any such adjustment must be made by and set forth in an amendment to this Debenture approved by action by the directors of the Company, acting reasonably, and will for all purposes be conclusively deemed to be an appropriate adjustment.

(6) In any case in which this Section 4.3 shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Borrower may defer, until the occurrence of such event, issuing to the Lender before the occurrence of such event, the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event before giving effect to such adjustment; provided, however, that the Borrower shall deliver to the Lender an appropriate instrument evidencing the Lender’s right to receive such additional Common Shares upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares declared in favour of holders of record of Common Shares on and after the Issue Date or such later date as the Lender would, but for the provisions of this Section 4.3(6), have become the holder of such additional Common Shares pursuant to Section 4.3(2).

(7) The adjustments provided for in this Section 4.3 are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other event resulting in any adjustment under the provisions of this Section, provided that, notwithstanding any other provision of this Section, no adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided, however, that any adjustments which by reason of this Section 4.3(7) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

#### **Section 4.4 No Requirement to Issue Fractional Common Shares**

The Borrower shall not be required to issue fractional Common Shares upon the conversion of the Debenture pursuant to this Article 4. If any fractional interest in a Common Share, would, except for the provisions of this Section 4.4, be deliverable upon the conversion of any amount hereunder, the number of Common Shares to be issued shall be rounded down to the nearest whole Common Share.

#### **Section 4.5 Borrower to Reserve Common Shares**

The Borrower covenants with the Lender that it will at all times reserve and keep available out of its authorized Common Shares, solely for the purpose of issue upon exercise of the Conversion Right or Accelerated Conversion Right, and conditionally allot to the Lender, such number of Common Shares as shall then be issuable upon the conversion of this Debenture. The Borrower covenants with the Lender that all Common Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.

#### **Section 4.6 Certificate as to Adjustment**

The Borrower shall from time to time, immediately after the occurrence of any event which requires an adjustment or readjustment as provided in Section 4.3, deliver an officer's certificate to the Lender specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Subject to the dispute resolution procedure in subsection 4.3(5), such certificate shall be binding and determinative of the adjustment to be made, absent manifest error.

#### **Section 4.7 Shareholder of Record**

For all purposes, on the Issue Date the Lender shall be deemed to have become the holder of record of the Common Shares into which the Principal Amount of this Debenture (or a portion thereof) is converted in accordance with Section 4.2.

#### **Section 4.8 Resale Restrictions, Legending and Disclosure**

By its acceptance hereof the Lender acknowledges that this Debenture and the Common Shares issuable upon conversion hereof will be subject to certain resale restrictions under applicable securities laws, and the Lender agrees to comply with all such restrictions and laws. The Lender further acknowledges and agrees that all Common Share certificates will bear the legend substantially in the form set forth on the face page hereof, provided that such legend shall not be required on Common Share certificates issued after completion of a Liquidity Event. The Lender acknowledges that the Borrower will be required to provide to the applicable securities regulatory authorities the identity of the Lender and its principals and the Lender hereby agrees thereto.

### **ARTICLE 5 – SECURITY**

#### **Section 5.1 Security**

As security for the Obligations under this Debenture, the Borrower shall grant the Debentureholder a registered first charge over the Property by way of the registered Collateral Debenture and a security interest over all of the Company's present and after acquired personal property in which the Borrower has rights, of whatsoever nature or kind and wherever situate. The security granted to the Debentureholder shall be evidenced by one or more general security agreements entered into between the Borrower and the Debentureholder and the registered Collateral Debenture.

#### **Section 5.2 Priority of Security**

The security granted by the Borrower shall rank in priority in all respects (including, without limitation, the right of payment) to all other existing security granted by the Borrower. As of the date of issue of the Debenture, any outstanding indebtedness of the Borrower shall be subordinated to the Debenture.

#### **Section 5.3 Distribution on Dissolution, Etc.**

Upon any sale, in one transaction or a series of transactions, of all, or substantially all, of the assets of the Borrower or distribution of the assets of the Borrower upon any dissolution or winding-up or total liquidation of the Borrower, whether in bankruptcy, liquidation, re-organization, insolvency, receivership or other similar proceedings or upon an assignment to or for the benefit of creditors of the Borrower or otherwise any payment or distribution of assets of the Borrower, whether in cash, property or security shall be paid or delivered by the trustee in bankruptcy,

receiver, assignee of or for the benefit of creditors or other liquidating agent of the Borrower making such payment or distribution, directly to the holder of this Debenture or their representatives, to the extent necessary, to pay all obligations pursuant to this Debenture in full.

#### **Section 5.4 Certificate Regarding Creditors**

Upon any payment or distribution of assets of the Borrower referred to in this Section 5.4, the Debentureholder shall be entitled to rely upon a certificate of the trustee in bankruptcy, receiver, assignee of or for benefit of creditors or other liquidating agent of the Borrower making such payment or distribution, delivered to the Debentureholder, for the purpose of ascertaining the persons entitled to participate in such distribution, and other indebtedness of the Borrower, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Section 5.4.

#### **Section 5.5 Rights of Debentureholder Reserved**

Nothing contained in this Section 5.5 or elsewhere in this Debenture is intended to or shall impair, as between the Borrower and the Debentureholder, the obligation of the Borrower, which is absolute and unconditional, to pay to the Debentureholder the Principal Amount and interest on the Debenture, as and when the same shall become due and payable in accordance with their terms, nor shall anything herein prevent the Debentureholder from exercising all remedies otherwise permitted by applicable law upon default under this Debenture.

#### **Section 5.6 Payment of Debenture Permitted**

Nothing contained in this Debenture shall:

- (a) prevent the Borrower from making payments of the Principal Amount, interest and other amounts to the Debentureholder under this Debenture as herein provided;
- (b) prevent the conversion of this Debenture into Common Shares as herein provided or as otherwise permitted according to law, including in connection with a bankruptcy, reorganization, insolvency, or other arrangement with creditors, of the Borrower; and
- (c) prevent the redemption of this Debenture by the Borrower as herein provided or as otherwise permitted according to law.

#### **Section 5.7 Share Pledge**

As security for the Obligations under this Debenture, the Borrower shall physically deliver to the Lender the certificates and other evidences of ownership representing all the outstanding securities of the Subsidiaries existing on or established after the date of this Debenture in which the Borrower now or hereafter has rights to be held in pledge by the Lender under this Debenture together with powers of attorney to transfer the securities executed in blank, which certificates and powers of attorney shall remain in the hands of the Lender. The pledge of securities granted to the Lender shall be evidenced by one or more securities pledge agreements appended hereto as Schedule F entered into between the Borrower, the Lender and the Subsidiaries on terms satisfactory to the Lender, including without limitation a restriction on the issue of any additional securities of the Subsidiaries.

### **ARTICLE 6 – COVENANTS OF THE BORROWER**

#### **Section 6.1 Positive Covenants**

The Borrower covenants and agrees that:

- (1) **Maintain Corporate Existence.** Each of the Borrower and its Subsidiaries, if any, shall maintain its corporate existence, and preserve its rights, powers, licenses and privileges which are necessary or material to the conduct of its business, provided that it may complete a transaction resulting in a Change of Control or a Merger in compliance with the terms of this Debenture;

- (2) **Compliance with Laws.** Each of the Borrower and its Subsidiaries, if any, shall comply in all material respects with all applicable laws, rules, governmental restrictions and regulations;
- (3) **Maintain Books and Records.** The Borrower shall, and shall cause each of its Subsidiaries (if any) to, keep adequate and accurate records and books of account in which complete entries will be made reflecting all financial transactions and prepare its financial statements in accordance with generally accepted accounting principles;
- (4) **Payment of Taxes.** Each of the Borrower and its Subsidiaries, if any, shall pay and discharge promptly all Taxes assessed or imposed upon it or its property as and when the same become due and payable save and except where it contests in good faith the validity thereof by proper legal proceedings;
- (5) **Payment of Obligations.** The Borrower shall pay all principal, interest and other amounts owing to the Lender hereunder promptly when due (other than interest payments that are not paid by the Borrower when due and that will accrue and be added to the Principal Amount in accordance with Section 2.2);
- (6) **Performance of Covenants.** The Borrower shall promptly perform and satisfy all covenants and obligations to be performed by it under this Debenture;
- (7) **Insurance.** Each of the Borrower and its Subsidiaries, if any, shall maintain insurance with respect to its properties and business against such casualties and contingencies, of such types, on such terms and in such amounts as is customary in the case of entities engaged in the same or a similar business and similarly situated; and
- (8) **Notice of Event of Default.** The Borrower shall promptly, and in any event within five (5) Business Days after a responsible officer of the Borrower becoming aware, give notice to the Lender of the existence of any Event of Default.

## Section 6.2 Negative Covenants

The Borrower covenants and agrees that, without the prior written consent of the Lender:

- (1) **Additional Indebtedness.** The Borrower shall not, and shall not permit the Subsidiaries, if any, to assume any additional indebtedness other than (i) Permitted Secured Debt, and (ii) Permitted Subordinated Debt incurred in the ordinary course of business not to exceed \$10,000,000.
- (2) **Additional Equity.** Other than grants of securities pursuant to any stock option plan or other equity compensation arrangement for employees or consultants of the Company, the Borrower shall not issue Common Shares or securities convertible into Common Shares for aggregate gross proceeds in excess of \$2,000,000 at an issue price, or exercise or conversion price, that is less than \$0.53 per Common Share without the prior written consent of the Debentureholder, such consent not to be unreasonably withheld. For greater certainty, the Borrower shall be entitled to issue any number of Common Shares or securities convertible into Common Shares at an issue price, or exercise or conversion price of greater than or equal to \$0.53 per Common Share.
- (3) **Encumbrances.** The Borrower shall not, and shall not permit the Subsidiaries to, create, assume or permit to exist any Lien on any assets or property, other than (i) such Liens as existed on the date hereof, (ii) Liens imposed by any governmental authority for any Taxes not yet due and delinquent or which are being contested in good faith, (iii) Liens granted after the date hereof to secure Permitted Secured Debt, provided that the aggregate amount of indebtedness incurred or assumed by the Borrower and the Subsidiaries after the date hereof does not exceed the amounts set forth under Section 6.2(1) (collectively, the “**Permitted Encumbrances**”).
- (4) **Distributions.** The Borrower shall not declare, pay or make any dividend or other distribution on any shares in the capital of the Borrower or authorize the repurchase of any shares in the capital of the Borrower.
- (5) **Guarantees.** The Borrower shall not become liable under any guarantees or otherwise become a surety for the indebtedness of another Person, other than (i) in the ordinary course of business, or (ii) in connection with Permitted Secured Debt incurred or assumed by the Borrower or the Subsidiaries.

(6) **Related Party Transactions.** The Borrower shall not enter into any contract or transaction with any related party except for the purchase and/or sale of goods and/or services at fair market value and except for the issuance of securities of the Borrower on the same terms as offered to non-related parties.

(7) **Dispositions.** Subject to Section 6.2(10), none of the Borrower or its Subsidiaries shall sell, transfer or otherwise dispose of any property (including shares of Subsidiaries), other than:

- (a) obsolete or worn-out property no longer used in the Business;
- (b) inventory, receivables or other property sold or disposed of in the ordinary course of business at fair market value; or
- (c) property (including shares of Subsidiaries) sold or disposed of for fair market value to Persons at arm's length to the Borrower provided that (i) no Event of Default is continuing on the date of such sale or would occur as a result of such sale and (ii) the cash component of the aggregate proceeds of such sale is not less than 75% of such proceeds.

For greater certainty, this Section 6.2(7) shall not in any way restrict the Borrower from (A) issuing Common Shares or securities convertible into Common Shares or (B) incurring or assuming Permitted Secured Debt, in either case at any time and from time to time after the date hereof.

(8) **Change in Nature of Business.** The Borrower shall not, nor will it permit any of its Subsidiaries to, engage to any material respect in any lines of business other than the Business.

(9) **Investments.** The Borrower shall not, nor will it permit any of its Subsidiaries to, make any investment in any Person, whether by acquisition of shares, indebtedness or other securities, or by loan, guarantee, advance, capital contribution or otherwise, other than:

- (a) investments made prior to the date hereof, and any roll-over, renewal or extension thereof;
- (b) investments in Subsidiaries of the Borrower and investments in entities in which Subsidiaries of the Borrower are a general or limited partner;
- (c) deposit accounts with and certificates of deposit and other instruments issued by banks;
- (d) obligations of or guaranteed by the governments of Canada, the United States of America or any province or state thereof;
- (e) security deposits with utilities, governmental authorities and other like Persons in the ordinary course of business; and
- (f) Permitted Acquisitions or the acquisition by the Borrower or a Subsidiary thereof of RX Infinity Inc., provided that the purchase price therefor shall not exceed \$1,000,000 without the prior consent of the Debentureholder, such consent not to be unreasonably withheld.

(10) **Mergers.** The Borrower shall not enter into any Merger unless:

- (a) the continuing corporation or other entity formed by the applicable consolidation, amalgamation or merger, or the Person that acquires by transfer, sale or lease all or substantially all of the assets of the Borrower, as the case may be, executes and delivers to the Lender its assumption in writing of the due and punctual performance and observance of each covenant and condition of this Debenture; and
- (b) no Event of Default is continuing on the date of such transaction or would occur as a result of such transaction.



(11) **Subsidiaries.** The Borrower shall not create, incorporate, acquire or otherwise establish any Subsidiary after the date hereof, provided that:

- (a) the Borrower may create, incorporate, or otherwise establish a Subsidiary provided that, prior to the creation, incorporation, or establishment of the Subsidiary:
  - (i) if the Subsidiary is a Controlled Subsidiary, the Subsidiary agrees to guarantee the payment of Borrower's indebtedness and all of Borrower's liability under this Debenture by executing a guarantee, the form of which is attached hereto as Schedule B, pursuant to Section 2.4 hereof;
  - (ii) if the Subsidiary is a Controlled Subsidiary, the Subsidiary enters into a general security agreement with Lender to provide security for the obligations of the Borrower under this Debenture, in the form of attached hereto as Schedule G; and
  - (iii) the Borrower pledges all of the securities that it holds in the capital of the Subsidiary by executing a securities pledge agreement in favour of the Lender, in the form attached hereto as Schedule F, pursuant to Section 5.7 hereof.

## **ARTICLE 7 – EVENTS OF DEFAULT**

### **Section 7.1 Events of Default**

(1) Any of the following shall constitute an Event of Default under this Debenture (each an “**Event of Default**”):

- (a) the Principal Amount owing hereunder shall not be paid when due;
- (b) any amount payable under this Debenture (other than interest payments that are not paid by the Borrower when due and that will accrue and be added to the Principal Amount in accordance with Section 2.2), shall not be paid within ten (10) Business Days of when it was due;
- (c) the Borrower defaults in the performance of or compliance with any other term contained herein (other than referred in subparagraphs (a) and (b) of this Section 7.1) and such default, if capable of being remedied, is not remedied within thirty (30) days after the Borrower receiving written notice of such default from the Lender;
- (d) if the Borrower shall generally fail to pay, or admit in writing its inability or unwillingness to pay, debts as they become due (other than interest payments that are not paid by the Borrower when due and that will accrue and be added to the Principal Amount in accordance with Section 2.2) or if a decree or order of a court having jurisdiction is entered adjudging the Borrower a bankrupt or insolvent;
- (e) if the Borrower shall apply for, consent to or acquiesce in the appointment of a trustee, receiver, or other custodian for the Borrower or for a substantial part of the property thereof, or make a general assignment for the benefit of creditors;
- (f) if the Borrower shall in the absence of such application, consent or acquiescence, become subject to the appointment of a trustee, receiver, or other custodian for the Borrower or for a substantial part of the property thereof, or have a distress, execution, attachment, sequestration or other legal process levied or enforced on or against a substantial part of the property of the Borrower;
- (g) if the Borrower shall permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Borrower and, if any such case or proceeding is not commenced by the Borrower, such case or proceeding, if contested by the Borrower is not dismissed within thirty (30) days;

- (h) if the Property or any part thereof or interest therein is sold, assigned, transferred, conveyed or otherwise disposed of by the Borrower, or is the subject of any attempted sale, assignment, transfer or conveyance without written consent of the Lender;
- (i) any notes, debentures, bonds or other indebtedness for money borrowed having an aggregate principal amount of at least \$1,000,000 (or its equivalent in any other currency or currencies determined at the then current exchange rate) or more (hereinafter called “**Indebtedness**”) of the Borrower shall become prematurely repayable following default, or steps are taken to enforce any security therefor, or the Borrower defaults in the repayment of any such Indebtedness at the maturity thereof, or in the case of Indebtedness due on demand, on demand, in either case, at the expiration of any applicable grace period therefor (if any), or any guarantee of or indemnity in respect of any Indebtedness of others given by the Borrower shall not be honored by the Borrower when due and called upon; or
- (j) the Borrower extends or maintains outstanding any loans, advances, guarantees, (direct or indirect) or other financial support to any insider (as defined in the *Securities Act* (Ontario)).

(2) If an Event of Default described in (e), (f), (g) above or (h) shall occur, the entire outstanding Principal Amount and accrued interest on this Debenture shall become immediately due and payable without any declaration or other act on the part of the Lender. Immediately upon the occurrence of any Event of Default described in (e), (f), (g) above or (h), or upon failure to pay this Debenture on the Maturity Date, the Lender, upon notice to the Borrower, may proceed to protect, enforce, exercise and pursue any and all rights and remedies available to the Lender under this Debenture, or at law or in equity.

(3) If any other Event of Default shall occur for any reason, whether voluntary or involuntary, and be continuing, the Lender may by notice to the Borrower declare all or any portion of the outstanding Principal Amount of this Debenture to be due and payable, whereupon the full unpaid amount of this Debenture which shall be so declared due and payable shall be and become immediately due and payable without further notice, demand or presentment.

#### **ARTICLE 8 – MUTILATION, LOSS, THEFT OR DESTRUCTION OF DEBENTURE CERTIFICATE**

In case this Debenture certificate shall become mutilated or be lost, stolen or destroyed, the Borrower, shall issue and deliver, a new replacement debenture certificate upon surrender and cancellation of the mutilated Debenture certificate or, in the case of a lost, stolen or destroyed Debenture certificate, in lieu of and in substitution for the same. In the case of loss, theft or destruction, the applicant for a substituted debenture certificate shall furnish to the Borrower such evidence of the loss, theft or destruction of the Debenture certificate as shall be satisfactory to the Borrower in its discretion and shall also furnish an indemnity and surety bond satisfactory to the Borrower in its discretion. The applicant shall pay all reasonable expenses incidental to the issuance of any substituted debenture certificate.

#### **ARTICLE 9 – GENERAL**

##### **Section 9.1 Taxes, etc.**

All payments made by the Borrower to the Lender under this Debenture shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes now or hereafter imposed by any official body in any jurisdiction, except as required under applicable law. If any Taxes are required by applicable law to be withheld or deducted from any amounts payable by the Borrower to the Lender hereunder, the Borrower shall:

- (a) within the time period for payment permitted by applicable law, pay to the appropriate governmental body the full amount of such Taxes and any additional Taxes in respect of the payment required under Section 9.1(b) hereof and make such reports and filings in connection therewith in the manner required by applicable law; and

- (b) pay to the Lender an additional amount which (after deduction of all Taxes incurred by reason of the payment or receipt of such additional amount) will be sufficient to yield to the Lender the full amount which would have been received by it had no deduction or withholding been made.

Upon the request of the Lender, the Borrower shall furnish to the Lender the original or a certified copy of a receipt for (or other satisfactory evidence as to) the payment of each of the Taxes (if any) payable in respect of such payment. If the Lender receives a refund or credit of any Taxes with respect to which the Borrower has paid any additional amount under this Section 9.1, the Lender shall promptly pay over an amount equal to such refund or credit to the Borrower. Nothing herein is intended to require payment by the Borrower to or for the Lender in respect of any Taxes payable by the Lender in respect of Taxes on the Lenders' own income, branch profits, capital, capital gains, dividends, or other earnings realized pursuant to payments made pursuant to the terms of this Debenture.

The Lender and the Borrower shall cooperate to minimize the amount that the Borrower may be required to pay pursuant Section 9.1(b).

### Section 9.2 Notice

Any demand, notice, direction or other communication to be made or given hereunder (in each case, "**Communication**") shall be in writing and shall be made or given by personal delivery, by courier, by facsimile or email transmission, or sent by registered mail, charges prepaid, addressed to the respective parties as follows:

- (a) if to the Borrower:

Solace Health Inc.  
3610 Mavis Road  
Mississauga, Ontario  
L5C 1W2

Attention: Basem Hanna  
E-mail: bhanna@solacehealth.com

- (b) if to the Lender:

MMCAP International Inc. SPC  
c/o MM Asset Management Inc.  
66 Wellington Street West  
TD Bank Tower, Suite 2707  
P.O. Box 179, Toronto-Dominion Centre  
Toronto, Ontario  
M5K 1H6

Attention: Matt MacIsaac  
E-mail: matt@mmcap.ky

or to such other address or email or facsimile number as any party may from time to time designate in accordance with this Section. Any Communication made by personal delivery or by courier shall be conclusively deemed to have been given and received on the day of actual delivery thereof or if such day is not a Business Day, on the first Business Day thereafter. Any Communication made or given by facsimile or email on a Business Day before 4:00 p.m. (local time of the recipient) shall be conclusively deemed to have been given and received on such Business Day and otherwise shall be conclusively deemed to have been given and received on the first Business Day following the transmittal thereof. Any Communication that is mailed shall be conclusively deemed to have been given and received on the fifth Business Day following the date of mailing but if, at the time of mailing or within five Business Days thereafter, there is or occurs a labour dispute or other event that might reasonably be expected to disrupt delivery of documents by mail, any Communication shall be delivered or transmitted by any other means provided for in this Section.

### **Section 9.3 Merger of Borrower**

By its acceptance hereof, each of the Borrower and the Lender acknowledges and agrees that in the event a Merger occurs, then all references herein to the Borrower shall extend to and include the entity resulting therefrom or which thereafter will carry on the business of the Borrower.

### **Section 9.4 Amendments**

This Debenture may not be amended or otherwise modified except by an instrument in writing executed by the Borrower and the Lender.

### **Section 9.5 Waivers**

The Lender shall not, by any act, delay, omission or otherwise, be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and executed by an authorized officer of the Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by the Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which the Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

### **Section 9.6 Registration of Debenture**

The Borrower shall cause to be kept a register in which shall be entered the name and latest known address of the Lender. Such register shall at all reasonable times during regular business hours of the Borrower and upon reasonable notice be open for inspection by the Lender. The Borrower shall not be charged with notice of or be bound to see to the performance of any trust, whether express, implied, or constructive, in respect of this Debenture and may act on the direction of the Lender, whether named as trustee or otherwise, as though the Lender were the beneficial owner of this Debenture.

### **Section 9.7 Transfer of Debenture**

Provided that no Event of Default has occurred and is continuing, this Debenture shall not be transferable without the prior written consent of the Borrower, which consent shall not be unreasonably withheld. For greater certainty, upon the occurrence of an Event of Default, this Debenture shall be fully transferable at the option of the Debentureholder in its sole discretion. Notwithstanding the foregoing, no transfer of this Debenture shall be valid unless made in accordance with applicable laws, including Canadian Securities Laws. If the Lender intends to transfer this Debenture or any portion thereof, it shall deliver to the Borrower the transfer form attached to this Debenture as Schedule E, duly executed by the Lender. Upon compliance with the foregoing conditions and the surrender by the Lender of this Debenture, the Borrower shall execute and deliver to the applicable transferee a new Debenture registered in the name of the transferee. If less than the full Principal Amount of this Debenture is transferred, the Lender shall be entitled to receive, in the same manner, a new Debenture registered in its name evidencing the portion of the Principal Amount of this Debenture not so transferred. Prior to registration of any transfer of this Debenture, the Lender and the applicable transferee shall be required to provide the Borrower with necessary information and documents, including certificates and statutory declarations, as may be required to be filed under applicable laws.

### **Section 9.8 Release and Discharge**

If the Lender exercises all conversion rights attached to this Debenture pursuant to Article 4 hereof or if the Borrower pays all of the Obligations in full to the Lender, the Lender shall release this Debenture and the Borrower shall be, and shall be deemed to have, discharged of all its obligations under this Debenture. The Lender shall then, at the request of the Borrower execute and deliver all such releases and further assurances as may be reasonably required in this regard including, without limitation, releases and discharges of the Guarantee.

### **Section 9.9 Successors and Assigns**

This Debenture shall enure to the benefit of the Lender and its successors and assigns, and shall be binding upon the Borrower and its successors and permitted assigns.

### **Section 9.10 Time**

Time shall be of the essence of this Debenture.

### **Section 9.11 Governing Law**

This Debenture shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. The Borrower and, by its acceptance hereof, the Lender each hereby irrevocably submit and attorn to the nonexclusive jurisdiction of the courts of the Province of Ontario in connection with this Debenture.

### **Section 9.12 Further Assurances**

The Borrower shall forthwith, at its own expense and from time to time, do or file, or cause to be done or filed, all such things and shall execute and deliver all such documents, agreements, opinions, certificates and instruments reasonably requested by the Lender or its counsel as may be necessary or desirable to complete the transactions contemplated by this Debenture and carry out its provisions and intention.

**Schedule B – Guarantee and Confirmation**

### Guarantee and Confirmation

**For value received** \_\_\_\_\_ (the “**Guarantor**”) hereby guarantees to MMCAP International Inc. SPC (the “**Debentureholder**”) payment, forthwith after demand made therefor as hereinafter provided, of all indebtedness and liability (present and future, direct or indirect, absolute or contingent, matured or not) of Solace Health Inc. (the “**Company**”) to the Debentureholder under or in connection with the senior secured convertible debenture (the “**Debenture**”) dated \_\_\_\_\_, 2017, in the principal amount of \$9,400,000 issued by the Company to the Debentureholder, and registered in the name of Gundy Co. in Trust for MMCAP International Inc. SPC Acct 515-00014-27, including principal, interest, default interest and all other monies payable under the Debenture; and the Guarantor further agrees that:

1. The Guarantor’s obligation to pay under this guarantee shall not be limited or reduced as a result of the termination, invalidity or unenforceability of any right of the Debentureholder against the Company or any other party (including other guarantors) for any cause whatsoever.
2. This guarantee shall be a continuing security for payment by the Company to the Debentureholder of all amounts owing under the Debenture.
3. The Debentureholder shall not be bound to exhaust its recourse against the Company or other parties or the securities that it may hold before being entitled to payment from the Guarantor under this guarantee.
4. Any change or changes in the name of the Company shall not affect or in any way limit or lessen the liability of the Guarantor under this guarantee and this guarantee shall extend to the person, firm or corporation acquiring or from time to time carrying on the business of the Company.
5. Any account settled or stated by or between the Debentureholder and the Company shall be accepted by the Guarantor as conclusive evidence that the balance or amount thereby appearing due by the Company to the Debentureholder is in fact so due.
6. The Guarantor agrees not to assert any right of subrogation against the Company or contribution against any other guarantor until all amounts owing under the Debenture have been paid in full. If the Debentureholder should receive from the Guarantor a payment in full or on account of the indebtedness or liability under this guarantee, all rights of subrogation arising therefrom shall be postponed and the Guarantor shall not be entitled to claim repayment against the Company or the Company’s estate until all amounts owing under the Debenture have been paid in full; and in the case of liquidation, winding up or bankruptcy of the Company (whether voluntary or compulsory) or in the event that the Company shall make a bulk sale of any of the Company’s assets within the bulk transfer provisions of any applicable legislation, or shall make any compromise with creditors or scheme of arrangement, the Debentureholder shall have the right to rank for its full claim and receive all dividends or other payments in respect thereof until its claim has been paid in full and the Guarantor shall continue to be liable, up to the amount guaranteed, less any payments made by the Guarantor, for any balance which may be owing to the Debentureholder by the Company.
7. Any notice or demand which the Debentureholder may wish to give may be served on the on any officer or director of the Guarantor, or by sending the same registered mail in an envelope addressed to the last known address of the Guarantor to be served as it appears on the Debentureholder’s records and the notice so sent shall be deemed to be received on the fifth business day following that on which it is mailed.
8. The Guarantor shall be currently liable under this guarantee at any time for the full amount of the Company’s liabilities then outstanding under the Debenture, subject to the limit of liability of the Guarantor set forth above, provided that the Guarantor shall not be in default under or in breach of this guarantee unless and until the Debentureholder has made demand upon the Guarantor hereunder and the Guarantor have failed to pay the amount demanded or otherwise failed to comply with such demand forthwith following receipt (or deemed receipt) of such demand. In the case of default the Debentureholder may maintain an action upon this guarantee whether or not the Company is joined therein or separate action is

brought against the Company or judgment obtained against it. The Debentureholder's rights are cumulative and shall not be exhausted by the exercise of any number of successive actions until and unless all indebtedness and liability hereby guaranteed has been paid and each of the Guarantor's obligations under the guarantee has been fully performed.

9. The Guarantor shall pay to the Debentureholder on demand (in addition to all debts and liabilities of the Company hereby guaranteed) all costs, charges and expenses (including, without limitation, reasonable lawyer's fees as between solicitor and his own client on a full indemnity basis) actually incurred by the Debentureholder (and not otherwise reimbursed) for the enforcement of this guarantee, together with interest thereon, both before and after demand, default and judgment, calculated from the date of payment by the Debentureholder of each such cost, charge and expense until payment by the Guarantor hereunder, at the rate per annum then payable under the Debenture.
10. This instrument is in addition and without prejudice to any other securities of any kind including any other guarantees, whether or not in the same form as this instrument, now or hereafter held by the Debentureholder. Without limiting the generality of the foregoing, all limits and evidence of liability pursuant to any guarantee now or hereafter held by the Debentureholder shall be cumulative.
11. There are no representations, warranties, collateral agreements or conditions with respect to this guarantee or affecting the Guarantor's liability hereunder other than as contained herein, in any other document or instrument by the Guarantor to the Debentureholder.
12. This instrument shall be construed in accordance with the laws of Ontario, and the Guarantor agrees that any legal suit, action or proceedings arising out of or relating to this instrument may be instituted in the courts of such province or territory and the Guarantor hereby accepts and irrevocably submits to the jurisdiction of the said courts and acknowledges their competence and agrees to be bound by any judgement thereof, provided that nothing herein shall limit the Debentureholder's right to bring proceedings against the Guarantor elsewhere.
13. This instrument shall extend to and enure to the benefit of the successors and assigns of the Debentureholder and shall be binding upon the Guarantor and the heirs, executors, administrators and successors of the Guarantor.
14. Executed copies of this instrument may be delivered by facsimile transmission or electronic mail transmission.

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DATED this \_\_\_\_ day of \_\_\_\_\_, 201\_\_.

\_\_\_\_\_

By: \_\_\_\_\_

Name:

Title:

**SCHEDULE "C"**  
**LEASED PREMISES**

None.

## Schedule C – Collateral Debenture

## **DEBENTURE**

**CAD \$9,400,000.00**

**Due: On Demand**

**THIS DEBENTURE** is issued the 31<sup>st</sup> day of January, 2017 by SOLACE HEALTH INC. (the “**Chargor**”), whose principal office or place of business is at 3610 Mavis Road, Mississauga, Ontario, L5C 1W2, to MMCAP International Inc. SPC located at George Town Financial Center, 90 Fort Street, P.O. Box 259, George Town, Grand Cayman KY1-1104, Cayman Islands and its respective successors and assigns (the “**Holder**”).

**FOR VALUABLE CONSIDERATION** and the sum of \$10.00 paid by the Holder to the Chargor (the receipt and sufficiency of which are hereby acknowledged), the Chargor covenants, acknowledges, represents and warrants to and in favour of the Holder as follows:

### **ARTICLE 1 INTERPRETATION**

#### **1.1 Definitions**

Each word and phrase defined or given an extended meaning in Schedule “A” is used in this Debenture with the respective defined or extended meaning assigned to it in Schedule “A”. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Convertible Debenture.

#### **1.2 Statutes**

Each reference in this Debenture to any code, statute, regulation, official interpretation, directive or other legislative enactment of any Canadian or foreign jurisdiction (including any political subdivision of any thereof) at any time shall be construed so as to include such code, statute, regulation, official interpretation, directive or enactment and each change thereto made at or before that time.

#### **1.3 Agreements**

Each reference in this Debenture to any agreement (including this Debenture and any other term defined in Schedule “A” that is an agreement), document or instrument at any time shall be construed so as to include such agreement (including any attached schedules, appendices and exhibits, future amendments and/or restatements), document or instrument and each change thereto at or before that time.

#### **1.4 Headings**

The division of this Debenture into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Debenture. The article and section headings in this Debenture are included solely for convenience, are not intended to be full or accurate descriptions of the article or section to which they pertain and shall not be considered part of this Debenture.

### **1.5 Number and Gender**

In this Debenture, words (including defined terms) in the singular include the plural and vice-versa (the necessary changes being made to fit the context) and words in one gender include all genders.

### **1.6 Severable**

Wherever possible, each provision of this Debenture shall be interpreted in such a manner as to be effective and valid under Applicable Law, but if any provision of this Debenture or any part thereof shall be prohibited by or invalid under Applicable Law, such provision or part thereof shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or part thereof or the remaining provisions of this Debenture.

## **ARTICLE 2 PROMISE TO PAY**

**2.1** The Chargor hereby acknowledges itself indebted and promises to pay to or to the order of the Holder, **ON DEMAND** made in accordance with the terms hereof, or on such earlier date as the principal monies hereby secured may become payable in accordance with the terms hereof, the Secured Obligations limited to the principal sum of nine million four hundred thousand dollars (\$9,400,000) in lawful currency of Canada and all other amounts now or hereafter payable hereunder as and when they become due and payable under the Convertible Debenture (the “**Principal Sum**”) at the office of the Holder described at the commencement of this Debenture, or at such other place as the Holder may designate at any time and from time to time by notice to the Chargor, and shall pay interest thereon from the date hereof at a rate equal to twenty-five (25%) per annum calculated yearly not in advance both before and after maturity, default or judgment together with interest on overdue interest at the same rate.

## **ARTICLE 3 SECURITY**

### **3.1 Security Interest**

As general and continuing collateral security, without novation, for the due payment and performance of the Secured Obligations, and subject to the exceptions in Sections 3.5 and 3.6, the Chargor hereby:

- (a) grants, creates a security interest in, assigns, pledges, conveys, hypothecates, mortgages and charges as and by way of a fixed and specific mortgage and charge to and in favour of the Holder:
  - (i) all freehold, real or immovable property in which the Chargor now or hereafter has Rights, including, without limitation, the Lands in which the Chargor now or hereafter has Rights, together with all buildings, erections and fixtures now or hereafter constructed, erected or installed thereon;

- (ii) by way of demise and sub-lease, all leasehold real or immovable property related to the Lands in which the Chargor now or hereafter has Rights, together with all buildings, erections and fixtures now or hereafter constructed, erected or installed thereon, including, without limitation, the Leased Premises in which the Chargor now or hereafter has Rights, together with all buildings, erections and fixtures now or hereafter constructed, erected or installed thereon;
- (iii) any and all existing or future leases relating to the whole or any part or parts of the Lands or the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights and all existing or future licenses or concessions whereby any person is given the right by the Chargor (other than an easement or a right in the nature of an easement) to use or occupy the whole or any part or parts of the Lands or the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights and all extensions, amendments, renewals or substitutions thereof or therefore which may hereafter be effected or entered into, and all benefits, powers and advantages of the Chargor to be derived therefrom and all covenants, obligations and agreements of the tenants thereunder;
- (iv) all rents and other moneys now due and payable or hereafter to become due and payable under any and all leases relating to the whole or any part or parts of the Lands or the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights, and each guarantee of or indemnity in respect of the obligations of the tenants thereunder with full power to demand, sue for recovery, receive and give receipts for all such rents and other moneys and otherwise to enforce the rights of the Chargor thereto in the name of the Chargor;
- (v) any and all existing or future agreements, contracts, licences, permits, plans and specifications, bonds, letters of credit, letters of guarantee or other documents or instruments affecting or relating to the Lands or the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights or any part or parts thereof and all extensions, amendments, renewals or substitutions thereof or therefore which may hereafter be effected or entered into and all benefit, power and advantage of the Chargor to be derived therefrom;
- (vi) any and all existing or future agreements of purchase and sale, options to purchase in favour of the Chargor and mortgages in favour of the Chargor, affecting or relating to the Lands, the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights or any part or parts thereof and all proceeds and other moneys now due and payable or hereafter to become due and

payable thereunder and all benefit, power and advantage of the Chargor to be derived therefrom;

- (vii) any and all existing or future insurance policies pertaining to the Lands, the Leased Premises or any other freehold or leasehold real or immovable property in which the Chargor now or hereafter has Rights or any part or parts thereof and the proceeds therefrom and all proceeds of expropriation or similar taking of the Lands and the Leased Premises or any part or parts thereof and all benefit, power and advantage of the Chargor to be derived therefrom;
  - (viii) all Rights to the property referred to in clauses (i) through (vii) inclusive above and related benefits, easements, franchises, immunities, licenses, privileges, rights-of-way, undersurface rights, servitudes, and other interests appertaining thereto or connected therewith; and
  - (ix) all Proceeds and Replacements of or to property referred to in clauses (i) through (viii) inclusive above, including all Rights thereto;
- (b) grants, assigns, pledges, conveys, hypothecates, mortgages and charges the following property as and by way of a floating charge to and in favour of the Holder:
- (i) all freehold and leasehold real and immovable property, in which the Chargor now or hereafter has Rights, together with all buildings, erections and fixtures now or hereafter constructed, erected, or installed thereon, save and except such property and assets as are validly and effectively subject to the fixed and specific security created by paragraph (a) above;
  - (ii) all Rights of the Chargor to the property referred to in clause (i) above; and
  - (iii) all Proceeds and Replacements of or to property referred to in clauses (i) and (ii) above, including all Rights thereto.

### **3.2 Habendum**

The Holder shall have and hold the Charged Property for its benefit but subject to the provisions of this Debenture.

### **3.3 Attachment**

The Chargor acknowledges that value has been given, that the Chargor and the Holder have not agreed to postpone the time for attachment of the Security and that the Security is intended to attach, as to all of the Charged Property in which the Chargor now has Rights, when the Chargor executes this Debenture and, as to all Charged Property in which the Chargor acquires Rights only after the execution of this Debenture, when the Chargor first acquires such

Rights. For certainty, the Chargor confirms and agrees that the Security is intended to attach to all present and future Charged Property of the Chargor and its respective Successor.

### **3.4 Proceeds Held in Trust**

After any Default occurs and is continuing, the Chargor shall receive and hold all Proceeds in trust, separate and apart from other monies, instruments or property, and shall forthwith endorse as necessary and pay over or deliver them to the Holder to be held by the Holder in accordance with the terms and conditions of this Debenture.

### **3.5 Leases**

- (a) The last day of the term of any lease, oral or written, or any agreement therefor, now held or hereafter acquired by the Chargor shall be excepted from the Security and shall not form part of the Charged Property but the Chargor shall stand possessed of such last day remaining and shall hold it in trust to assign and dispose of the same as the Holder directs. If any such lease or agreement therefor contains a provision which provides in effect that such lease or agreement may not be assigned, sub-leased, charged or made the subject of any Security Interest without the consent of the lessor, the application of the Security to any such lease or agreement shall be conditional upon such consent being obtained. The Chargor shall forthwith use commercially reasonable best efforts to obtain, as soon as reasonably practicable, such consent.
- (b) Upon any sale by the Holder or any Receiver of any leasehold interest pursuant to this Debenture, the Holder or any Receiver, for the purpose of vesting the one day residue of the term or renewal thereof in any purchaser or purchasers, shall be entitled by deed or writing to appoint such purchaser or purchasers or any other Person or Persons as new trustee or trustees of the aforesaid residue of any such term or renewal thereof in the place and stead of the Chargor and to vest the same accordingly in the new trustee or trustees so appointed free from any Obligation respecting the same.

### **3.6 Agreements and Licenses**

- (a) Notwithstanding anything to the contrary contained herein, if the Chargor cannot lawfully grant the Security in any agreement, Right or License comprised in the Charged Property in which it now or hereafter has Rights because the agreement, Right or License prohibits or restricts such Security, the agreement, Right or License requires the consent of any Person which has not been obtained or the grant of such Security in the agreement, Right or License would contravene Applicable Law, that agreement, Right or License shall not, to the extent it would be illegal or result in a material loss and expense to the Chargor (each, an “**Excluded Agreement**”), be subject to the Security (save to the extent provided below) unless and until such agreements, consents, waivers and approvals as may be required to avoid such illegality or loss and expense have been obtained (“**Required Approvals**”). The Security shall nonetheless immediately attach to



any Rights of the Chargor arising under, by reason of, or otherwise in respect of such Excluded Agreement, such as the Right to receive payments thereunder and all Proceeds and Replacements of such Excluded Agreement (“**Related Rights**”), if, to the extent and as at the time such attachment to the Related Rights is not illegal or would not result in a material loss and expense to the Chargor.

- (b) To the extent permitted by Applicable Law, the Chargor will hold in trust for the Holder, and provide the Holder with the benefits of, each Excluded Agreement and will enforce all Related Rights at the direction of the Holder or at the direction of such other Person (including any purchaser of Charged Property from the Holder or any Receiver) as the Holder may designate.
- (c) The Chargor shall forthwith use commercially reasonable best efforts to obtain, as soon as reasonably practicable, all such Required Approvals and acknowledgments of the nature referred to in Subsection 3.6(a).

#### **ARTICLE 4 REPRESENTATIONS AND WARRANTIES**

The Chargor represents and warrants that:

**4.1 Right to Encumber** – It has good title to the Charged Property, in which it has Rights, and has the Right, full power and lawful authority to grant, assign, transfer, mortgage and charge such Charged Property as provided in and by this Debenture, subject to Permitted Liens.

#### **ARTICLE 5 COVENANTS OF THE CORPORATION**

The Chargor, with respect to itself, hereby covenants and agrees with the Holder as follows:

**5.1 Corporate Existence, etc.** - It will maintain its corporate existence and preserve all Rights, powers, licenses, privileges, franchises and goodwill of the Chargor.

**5.2 Registrations** - If requested by the Holder, the Chargor will register this Debenture or notice thereof without delay at every office where the registration or recording thereof may, in the opinion of counsel for the Holder, be necessary or desirable to preserve, perfect or protect the security hereby created, and it will deliver or exhibit to the Holder, on demand, certificates, or other evidence satisfactory to the Holder, establishing such registration or recording, and from time to time renew the same, if such renewal is, in the opinion of counsel for the Holder, necessary or desirable to preserve, perfect or protect the security hereby created.

**5.3 Rents, Taxes, etc.** - It will from time to time pay or cause to be paid all rents, taxes, rates, levies or assessments, ordinary or extraordinary, government fees or dues, lawfully levied, assessed or imposed upon the Charged Property in which it has Rights or any part thereof, as and when the same become due and payable, save and except when and so long as the validity of any such rents, taxes, rates, levies, assessments, fees or dues is in good faith being contested by the Chargor by proper legal proceedings, provided that in such case the

Chargor shall satisfy the Holder, and if required furnish security satisfactory to it, that any such contestation will involve no forfeiture of any part of such Charged Property. If the Chargor defaults in payment of any such rents, taxes, rates, levies, assessments, fees or dues then the Holder shall be entitled to pay the same, and any amounts so paid by the Holder shall be added to the Principal Sum and shall be secured hereby and shall be payable forthwith together with interest thereon calculated at the rate and at the times and in the manner provided for herein for interest arrears on the Principal Sum.

**5.4 Maintenance of the Property** - It will not permit waste to be committed or suffered on the Charged Property, in which it has Rights, will diligently maintain, use, operate and repair such Charged Property to the extent that a reasonable owner of a similar class of property would and will carry on and conduct its business with respect to such Charged Property in a proper and efficient manner so as to preserve and protect such Charged Property and the earnings, incomes, rents, issues, profits, benefits and advantages thereof. The Holder may make such repairs as it reasonably deems necessary and any such repairs shall be added to the Principal Sum and secured hereby and shall be payable forthwith together with interest thereon calculated at the rate and at the times and in the manner provided for herein for interest arrears on the Principal Sum.

**5.5 Records** - It will keep and maintain, at its own cost and expense proper books of account and records relating to the operation of, and will, upon the reasonable request of the Holder, provide the Holder with information concerning the Charged Property, in which it has Rights, and the business of the Chargor.

**5.6 Access** - It will from time to time permit duly authorized agents or representatives of the Holder, during reasonable business hours, to enter upon and inspect the Charged Property, in which it has Rights, and the business of the Chargor and its books of accounts and records.

**5.7 Performance of Obligations** - It will comply with the requirements of agreements and documents to which it is a party and all Applicable Laws, by laws, ordinances, work orders, regulations, consents and directives of any administrative body, governmental body or judicial authority or organization or body, if non-compliance with such laws, agreements or documents might adversely affect the financial condition of the Chargor, its ability to perform and observe its Obligations under this Debenture or the validity or priority of the security created by this Debenture, or if such laws, agreements or documents otherwise affect the Charged Property, in which it has Rights. The Chargor will forthwith notify the Holder of any non-compliance with any such laws, agreements and documents.

**5.8 Further Assurances** - At any time and all times, the Chargor will do, execute, acknowledge and deliver or will cause to be done, executed, acknowledged and delivered all such further acts, deeds, conveyances, mortgages, transfers and assurances in law as the Holder shall reasonably require for the purpose of giving the Holder a valid mortgage, charge or security of the nature herein specified upon all property intended to be covered hereby, and for the better assuring, conveying, mortgaging, assigning, confirming or charging unto the Holder all and singular the hereditament and premises, estates and property hereby mortgaged and charged, or intended so to be, in favour of the Holder.

**5.9 Environmental Compliance** - It will comply and will cause all occupants and/or users of the Charged Property, in which it has Rights, to comply in all material respects with the requirement of any Environmental Laws applicable to such Charged Property. In the event of any Release of a Contaminant, the threat of a Release of a Contaminant, or the presence of any Contaminant affecting such Charged Property, whether or not the same originates or emanates from such Charged Property or any contiguous real property and other than in accordance with Environmental Laws and/or if the Chargor shall fail to comply with any of the requirements of Environmental Laws, the Holder may at its election, but without the Obligation so to do, give such notices and/or cause such work to be performed and/or take any and all other actions as the Holder shall reasonably deem necessary or advisable in order to abate the discharge of any Contaminant, remove the Contaminant or cure the Chargor's non-compliance. If the Holder, or someone on the Holder's behalf, retains the services of any lawyer or solicitor or any engineer, scientist or any environmental consultant or other consultant in connection with any environmental matter, the Chargor shall pay the reasonable costs and fees thereby incurred if retained as a result of any breach of Environmental Laws or in connection with any enquiry or investigation by a federal, provincial, municipal or local government or agency in connection with Environmental Laws or if the services performed are reasonably necessary for the performance of the Holder's functions under this Debenture or for the preservation or protection of such Charged Property. If the Chargor should fail to pay such costs or fees forthwith the Holder may but shall not be Obligated to pay the same. All Obligations, costs, charges, fees and expenses which the Holder incurs with respect to any matter referred to in this section 5.9 shall be added to the Principal Sum and shall be secured hereby and shall be payable forthwith and be a charge on such Charged Property together with interest thereon calculated at the rate and at the times and in the manner provided for herein for interest arrears on the Principal Sum, and in Default the Holder may exercise any and all of its remedies hereunder.

**5.10 Environmental Indemnity** - It shall at all times indemnify and hold harmless the Holder against and from any and all claims, suits, actions, debts, damages, costs, losses, Obligations, judgments, charges, and expenses, of any nature whatsoever suffered or incurred by the Holder, or any of them, whether upon realization of the security interests created by this Debenture, or as a Holder to the Chargor, or as Successor to or assignee of any Right or interest of the Chargor, or as a result of any order, investigation or action by any governmental or regulatory authority relating to the Chargor or its business undertaking, property or assets or as privileged or hypothecary creditor or mortgagee in possession of any Charged Property or as Successor or Successor-in-interest to the Chargor as a result of any taking of possession of any Charged Property or by foreclosure deed or deed in lieu of foreclosure or by any other means relating to the Chargor, under or on account of any breach of Environmental Laws, or the assertion of any encumbrance thereunder with respect to:

- (a) the Release of a Contaminant, the threat of the Release of any Contaminant, or the presence of any Contaminant affecting any Charged Property, whether or not the same originates or emanates from any Charged Property or any contiguous real or immovable property or personal property located thereon, including any loss of value of any Charged Property as a result of any of the foregoing;
- (b) the Release of a Contaminant owned by, or under the charge, management or control of the Chargor, or any predecessor or assignor of the Chargor,

- (c) any costs incurred by any Governmental Authority or any other Person or damages from injury to, destruction of, or loss of natural resources in relation to, any Charged Property or elsewhere or personal property located thereon, including reasonable costs of assessing such injury, destruction or loss incurred pursuant to any Environmental Laws,
- (d) liability for personal injury or property damage arising by reason of any civil law offences or quasi-offences or under any statutory or common law tort or similar theory, including, without limitation, damages assessed for the maintenance of a public or private nuisance or for the carrying on of a dangerous activity at, near, or with respect to any Charged Property or elsewhere, and/or
- (e) any other environmental matters affecting any Charged Property or the operations and activities of the Chargor within the jurisdiction of any Governmental Authority.

The Chargor's Obligation under this Section 5.10 shall arise upon the discovery of the presence of any Contaminant that is not in compliance with applicable Environmental Laws, whether or not any Governmental Authority has taken or threatened any action in connection with the presence of any Contaminant. The Chargor acknowledges that the Holder has relied upon the Chargor's representations, warranties and covenants. It is the intention of the Chargor and the Holder that the provisions of this section shall supersede any other provisions in this Debenture, and all other documents and instruments which in any way limit the liability of the Chargor and that the Chargor shall be liable, on a joint and several basis, for any Obligations arising under this section even if the amount of the liability incurred exceeds the outstanding amount of this Debenture. The Obligations of the Chargor arising under this section are absolute and unconditional and shall not be affected by any act, omission or circumstance whatsoever, except in respect of negligence or wilful misconduct by the Holder. This section shall survive the repayment of the Principal Sum and shall survive the transfer of any or all Right, title and interest in and to any Charged Property by a Chargor to any party, whether or not affiliated with the Chargor. Any amount payable or owing under this Section 5.10 shall be added to the Principal Sum and shall be secured hereby and shall be payable forthwith together with interest thereon calculated and payable at the rate and at the times and in the manner provided for herein for interest arrears on the Principal Sum.

**5.11 Quiet Possession.** That on Default, the Holder may peaceably and quietly enter into and hold and occupy any Charged Property without hindrance, interference or denial of the Chargor or of anyone claiming under any of them or of any prior encumbrancers whatsoever.

**5.12 Subsequent Encumbrances.** The Borrower shall not sell, assign, transfer, convey or otherwise dispose of the Property or any part thereof, directly or indirectly, by way of operation of law, transfer or issuance of interests in the Borrower or its direct or indirect subsidiaries or affiliates, without the prior written consent of the Holder. Notwithstanding the foregoing, nothing in this Section 5.12 shall prevent or restrict the Borrower from effecting a transaction pursuant to which it will become a "reporting issuer" under applicable Canadian Securities Laws (a "**Reporting Issuer**") where its common shares or the common shares of any resulting issuer would be listed and posted for trading on a public stock exchange, which may

include, without limitation, an initial public offering, a reverse take-over or a merger with an existing a Reporting Issuer.

## **ARTICLE 6 DEFAULT**

### **6.1 Default**

Whenever any Default referred to in Section 6.2 occurs and is continuing, the Security shall become immediately enforceable upon the Holder giving written notice to such effect to the Chargor.

### **6.2 Events of Default**

The occurrence of either or both of: (a) any default in the performance of, compliance with, or breach by the Borrower of any term, condition, covenant, representation or warranty contained in the Debenture; or (b) any event which is expressed to be a default or entitles the Holder to any remedy in the Convertible Debenture, shall constitute a “**Default**” hereunder.

### **6.3 Security Enforceable**

The fact that this Debenture provides for Defaults and Rights of acceleration shall not derogate from the demand nature of any Secured Obligation payable on demand.

### **6.4 Waiver**

The Holder may waive any Default or any breach by the Chargor of any of the provisions of this Debenture. No waiver, however, shall be deemed to extend to a subsequent breach or Default, whether or not the same as or similar to the breach or Default waived, and no act or omission by the Holder shall extend to, or be taken in any manner whatsoever to affect, any subsequent breach or Default or the Rights of the Holder arising therefrom. Any such waiver must be in writing and signed by the Holder to be effective. No failure on the part of the Holder to exercise, and no delay by the Holder in exercising, any Right under this Debenture shall operate as a waiver of such Right. No single or partial exercise of any such Right shall preclude any other or further exercise of such Right or the exercise of any other Right.

## **ARTICLE 7 REMEDIES ON DEFAULT**

### **7.1 Remedies of Holder**

If the Security becomes enforceable in accordance with Article 6, the Holder shall have the Rights set out in this Article 7.

## 7.2 Right to Appoint a Receiver

Upon the occurrence of a Default, the Holder may appoint by instrument in writing one or more Receivers of any Charged Property. Any such Receiver shall have the Rights set out in this Article 7. In exercising such Rights, any Receiver shall act as and for all purposes shall be deemed to be the agent of the Chargor and the Holder shall not be responsible for any act or default of any Receiver. The Holder may remove any Receiver and appoint another from time to time. An officer or employee of the Holder may be appointed as a Receiver. No Receiver appointed by the Holder need be appointed by, nor need its appointment be ratified by, or its actions in any way supervised by, a court. If two or more Receivers are appointed to act concurrently, they shall, unless otherwise expressly provided in the instrument appointing them, so act severally and not jointly and severally. The appointment of any Receiver or anything done by a Receiver or the removal or termination of any Receiver shall not have the effect of constituting the Holder a mortgagee in possession in respect of the Charged Property.

## 7.3 Rights of a Receiver

Any Receiver appointed by the Holder shall have the following Rights:

- (a) *Power of Entry.* The Chargor shall forthwith upon demand deliver to a Receiver possession of any Charged Property at the place specified by the Receiver. Any Receiver may at any time enter upon any premises owned, leased or otherwise occupied by the Chargor or where any Charged Property is located to take possession of, disable or remove any Charged Property, and may use whatever lawful means the Receiver considers advisable to do so.
- (b) *Sale.*
  - (i) Subject to compliance with regulatory obligations, any Receiver may sell, lease, consign, license, assign or otherwise dispose of any Charged Property by power of sale, public auction, private tender, private contract or by any other means permitted by Applicable Law, with or without notice, advertising or any other formality, all of which are hereby waived by the Chargor to the extent permitted by Applicable Law. Any Receiver may, at its discretion, establish the terms of such disposition, including terms and conditions as to credit, upset, reserve bid or price. All payments made pursuant to such dispositions shall be credited against the Secured Obligations only as they are actually received. Any Receiver may buy in, rescind or vary any contract for the disposition of any Charged Property and may dispose of any Charged Property again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Receiver has taken possession of the Charged Property. The exercise by the Receiver of any power of sale does not preclude the Receiver from further exercise of its power of sale in accordance with this clause.

- (c) *Carrying on Business.* Subject to compliance with regulatory obligations, any Receiver may carry on, or concur in the carrying on of, any of the business or undertaking of the Chargor and may, to the exclusion of all others, including the Chargor, enter upon, occupy and use any of the premises, buildings, plant and undertaking of or occupied or used by the Chargor. No Receiver shall be liable to the Chargor for any negligence in so doing or in respect of any rent, charges, costs, depreciation or damages in connection with any such action.
- (d) *Discharge of Security Interest.* Any Receiver may pay any liability secured by any actual or threatened Security Interest against any Charged Property. A Receiver may borrow money for the maintenance, preservation or protection of any Charged Property or for carrying on any of the business or undertaking of the Chargor and may grant Security Interests in any Charged Property in priority to the Security as security for the money so borrowed. The Chargor will forthwith on demand reimburse the Receiver for all such payments and borrowings, together with interest thereon as provided for in Section 8.18.
- (e) *Dealing with Collateral.* Any Receiver may seize, collect, realize, dispose of, enforce, release to third parties or otherwise deal with any Charged Property in such manner, upon such terms and conditions and at such time as it deems advisable without notice to the Chargor (except as otherwise required by Applicable Law), and may charge on its own behalf and pay to others its costs and expenses (including legal, Receiver's and accounting fees and expenses on a full indemnity basis) incurred in connection with such actions. The Chargor will forthwith upon demand reimburse the Receiver for all such costs or expenses.
- (f) *Powers with respect to Charged Property.* Any Receiver may have, enjoy and exercise all of the Rights of and enjoyed by the Chargor with respect to the Charged Property or incidental, ancillary, attaching or deriving from the ownership by Chargor of the Charged Property, including the Right to enter into agreements pertaining to the Charged Property, the Right to commence or continue Litigation to preserve or protect Charged Property and the Right to grant or agree to Security Interests and grant or reserve *profits à prendre*, easements, rights-of-way, rights in the nature of easements and licenses over or pertaining to the whole or any part of the Charged Property.
- (g) *Retain Services.* Any Receiver may retain the services of such real estate brokers and agents, lawyers, accountants, appraisers and other consultants as the Receiver may deem necessary or desirable in connection with anything done or to be done by the Receiver or with any of the Rights of the Receiver set out herein and pay their commissions, fees and disbursements (which payment shall constitute part of the Receiver's disbursements reimbursable by the Chargor hereunder). The Chargor shall forthwith on demand reimburse the Receiver for all such payments.
- (h) *Complete Construction.* Any Receiver may complete any unfinished construction upon or in the Charged Property including the power to:

- (i) appoint and engage superintendents, architects, engineers, miners, geologists, consultants, contractors, managers, advisors and such other personnel which, in the discretion of the Receiver, may be required to construct, furnish or operate the Charged Property;
- (ii) enter into contracts for the supply of materials and services which the Receiver deems necessary to complete or operate the Charged Property;
- (iii) enter into and enforce and take the benefit of Licenses, agreements and other arrangements in respect of the Charged Property which provide loans, grants or Licenses, from municipal or other Governmental Authorities or from any other source whatsoever;
- (iv) enter into, enforce, use and take the benefit of construction contracts, contracts for services or materials, performance bonds, insurance contracts, development agreements, plans, studies, reports, information or any other matter, material or arrangement in respect of the Charged Property; and
- (v) terminate any Licenses, agreements, Rights or other arrangements made by the Chargor in connection with the Charged Property on such terms as the Receiver deems reasonable.

#### **7.4 Right to have Court Appoint a Receiver**

The Holder may, at any time, apply to a court of competent jurisdiction for the appointment of a Receiver, or other official, who may have powers the same as, greater or lesser than, or otherwise different from, those capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.

#### **7.5 Holder may exercise Rights of a Receiver**

In lieu of, or in addition to, exercising its Rights under Sections 7.3 and 7.4, the Holder has, and may exercise, any of the Rights which are capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.

#### **7.6 Retention of Charged Property**

If the Security becomes enforceable, the Holder may elect to retain any Charged Property in satisfaction of the Secured Obligations. The Holder may designate any part of the Secured Obligations to be satisfied by the retention of particular Charged Property which the Holder considers to have a net realizable value approximating the amount of the designated part of the Secured Obligations, in which case only the designated part of the Secured Obligations shall be deemed to be satisfied by the retention of the particular Charged Property.



## **7.7 Limitation of Liability**

Neither the Holder nor any Receiver shall be liable or accountable for any failure of the Holder or any Receiver to seize, collect, realize, dispose of, enforce or otherwise deal with any Charged Property nor shall any of them be bound to institute Litigation for any such purposes or for the purpose of preserving any Rights of the Holder, the Chargor or any other Person in respect of any Charged Property. Neither the Holder nor any Receiver shall be liable or responsible for any loss and expense whatever which may accrue in consequence of any such failure resulting from any negligence of the Holder, any Receiver or any of their respective Representatives or otherwise, except to the extent determined by a final judgment to have been directly caused by the gross negligence or wilful misconduct of any Receiver, the Holder or their respective Representatives. If any Receiver or the Holder takes possession of any Charged Property, neither the Holder nor any Receiver shall have any liability as a mortgagee in possession or be accountable for anything except actual receipts.

## **7.8 Extensions of Time**

The Holder and any Receiver may grant renewals, extensions of time and other indulgences, take and give up Security Interests, accept compositions, grant releases and discharges, perfect or fail to perfect any Security Interests, release any Charged Property to third parties and otherwise deal or fail to deal with the Chargor, debtors of the Chargor, guarantors, sureties and others and with any Charged Property and other Security Interests as the Holder may see fit, all without prejudice to the liability of the Chargor to the Holder or the Rights of the Holder and any Receiver under this Debenture.

## **7.9 Application of Payments against Secured Obligations**

Any Recovery received by the Holder in respect of the Secured Obligations from time to time and any Recovery realized by the Holder on any Charged Property shall be appropriated and applied by the Holder in accordance with the terms of the Convertible Debenture.

## **7.10 Set-off, Combination of Accounts and Crossclaims**

The Secured Obligations will be paid by the Chargor without regard to any equities between the Chargor and the Holder or any Right of Set-off or cross-claim. Any indebtedness owing by the Holder to the Chargor, direct or indirect, extended or renewed, actual or contingent, mutual or not, may be set off or applied against, or combined with, the Secured Obligations by the Holder at any time either before or after maturity, without demand upon or notice to anyone.

## **7.11 Deficiency**

If the proceeds of the realization of any Charged Property are insufficient to repay all liquidated Secured Obligations, the Chargor shall forthwith pay or cause to be paid to the Holder such deficiency.

### **7.12 Validity of Sale**

No Person dealing with the Holder or any Receiver or with any Representative of the Holder or any Receiver shall be concerned to inquire whether the Security has become enforceable, whether any Right of the Holder or any Receiver has become exercisable, whether any Secured Obligations remain outstanding or otherwise as to the propriety or regularity of any dealing by the Holder or any Receiver with any Charged Property or to see to the application of any money paid to the Holder or any Receiver, and in the absence of fraud on the part of such Person such dealings shall be deemed, as regards such Person, to be within the Rights hereby conferred and to be valid and effective accordingly.

### **7.13 Holder or Receiver may Perform**

If the Chargor fail to perform any Secured Obligations, without limiting any other provision hereof, the Holder or any Receiver may perform those Secured Obligations as attorney for the Chargor in accordance with Section 8.17. Each Chargor shall remain liable under each agreement, Right and License to which it is party and shall perform all of its Obligations thereunder, and shall not be released from any of its Obligations under any such agreement, Right or License by the exercise of any Rights by the Holder or any Receiver. Neither the Holder nor any Receiver shall have any Obligation under any such agreement, Right or License, by reason of this Debenture, nor shall the Holder or any Receiver be Obligated to perform any of the Obligations of the Chargor thereunder or to take any action to collect or enforce any claim made subject to the security of this Debenture. The Rights conferred on the Holder and any Receiver under this Debenture are for the purpose of protecting the Security in the Charged Property and shall not impose any Obligation upon the Holder or any Receiver to exercise any such Rights.

### **7.14 Effect of Appointment of Receiver**

As soon as the Holder takes possession of any Charged Property or appoints a Receiver over any Charged Property, all Rights of each of the Representatives of the Chargor with respect to that Charged Property shall cease, unless specifically continued by the written consent of the Holder or the Receiver.

### **7.15 Rights in Addition**

The Rights conferred by this Article 7 are in addition to, and not in substitution for, any other Rights the Holder may have under this Debenture, at law, in equity or by or under Applicable Law or any Document or other agreement. The Holder or any Receiver may proceed by way of any action, suit or other proceeding at law or in equity including (a) the Right to take proceedings in any court of competent jurisdiction for the sale or foreclosure of the Charged Property and (b) filing proofs of claim and other documentation to establish the claims of the Holder in any Litigation relating to the Chargor. No Right of the Holder or any Receiver shall be exclusive of or dependent on any other. Any such Right may be exercised separately or in combination, and at any time. The exercise by the Holder or any Receiver of any Right hereunder does not preclude the Holder or any Receiver from further exercise of such Right in accordance with this Debenture.

## **ARTICLE 8 GENERAL**

### **8.1 Security in Addition**

The Security does not replace or otherwise affect any existing or future Security Interest held by the Holder. Neither the taking of any Litigation, judicial or extra-judicial, nor the refraining from so doing, nor any dealing with any other security for any Secured Obligations shall release or affect the Security except in the case of Payment in Full. Neither the taking of any Litigation, judicial or extra-judicial, pursuant to this Debenture, nor the refraining from so doing, nor any dealing with any Charged Property shall release or affect any of the other Security Interests held by the Holder for the payment or performance of the Secured Obligations.

### **8.2 No Merger**

This Debenture shall not operate by way of a merger of the Secured Obligations or of any guarantee or agreement or other document or Instrument by which the Secured Obligations now or at any time hereafter may be represented or evidenced. Neither the taking of any judgment nor the exercise of any power of seizure or disposition shall extinguish the liability of the Chargor to pay and perform the Secured Obligations nor shall the acceptance of any payment or alternate security constitute or create any novation. No covenant, representation or warranty of the Chargor herein shall merge in any judgment.

### **8.3 Notices**

Unless otherwise specified, any notice or other communication required or permitted to be given to a party under this Debenture shall be given in accordance with the Convertible Debenture.

### **8.4 Time of the Essence**

Time is and shall remain of the essence with respect to this Debenture and each of its provisions.

### **8.5 Governing Law**

This Debenture shall be governed by, and interpreted in accordance with, the laws in force in the Province of Ontario, including the federal laws of Canada applicable therein (excluding any conflict of laws rule or principle which might refer such construction to the laws of another jurisdiction). Such choice of law shall, however, be without prejudice to or limitation of any other Rights available to the Holder under the laws of any other jurisdiction where Collateral may be located. Each Chargor irrevocably attorns to and submits to the non-exclusive jurisdiction of the courts of the Province of Ontario located at Toronto with respect to any matter arising hereunder or related hereto. Each Chargor agrees that the courts of that province are the most appropriate and convenient courts to settle disputes and will not argue to the contrary. However, the Holder shall not be prevented from taking proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, the Holder may take concurrent proceedings in any number of jurisdictions.

## **8.6 Security Effective Immediately**

Neither the issuance nor registration of, or any filings with respect to, this Debenture, nor any partial advance or extension of credit by the Holder, shall bind the Holder to advance any amounts, grant any credit or supply any financial services to the Borrower or Chargor, but the Security shall take effect forthwith upon the issuance of this Debenture by the Chargor with respect to Charged Property in which the Chargor has Rights as of the date hereof.

## **8.7 Invalidity**

If any provision of this Debenture is found to be invalid or unenforceable, by a court of competent jurisdiction from which no further appeal Right lies, that provision shall be deemed to be severed herefrom and the remaining provisions of this Debenture shall not be affected thereby but shall remain valid and enforceable.

## **8.8 Successors and Assigns**

This Debenture shall enure to the benefit of the Holder and any Receiver and their respective Successors and permitted assigns and shall be binding on the Chargor, its legal representatives (including Receivers) and their respective Successors. Each reference to the Chargor in this Debenture shall be construed so as to include the Successors of the Chargor to the extent the context so admits.

## **8.9 Statutory Waivers**

To the fullest extent permitted by Applicable Law, the Chargor waives all of the Rights, benefits and protections given by the provisions of any existing or future statute which imposes limitations upon the Rights of a secured party or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Chargor agrees with the Holder to vary the limitation period under the *Limitations Act*, 2002 (Ontario) otherwise applicable to this Debenture and any claim hereunder to be the maximum limitation period permitted by that Act (currently 15 years as established under Section 15 of that Act).

## **8.10 Land Registration**

- (a) Covenants 1.v and 1.vi deemed to be included in a charge by subsection 7(1) of the *Land Registration Reform Act* (Ontario) are expressly excluded.
- (b) Covenant 1.vii deemed to be included in a charge by subsection 7(1) of the *Land Registration Reform Act* (Ontario) is expressly varied by providing that the Chargor or its Successors and assigns will, before and after default, execute such assurances of the property herein described and do such other acts, at the Chargor's expense, as may be reasonably required by the Holder.

### **8.11 Currency**

All references in this Debenture to monetary amounts, unless specifically provided, are to lawful currency of Canada. All sums of money payable under this Debenture shall be paid in the currency in which such sums are incurred or expressed as due hereunder.

### **8.12 Judgment Currency**

If for the purpose of obtaining judgment in any court it is necessary to convert any amount owing or payable to the Holder under this Debenture from the currency in which it is due (the “**Agreed Currency**”) into a particular currency (the “**Judgment Currency**”), the rate of exchange applied in that conversion shall be that at which the Holder, in accordance with its normal procedures, could purchase the Agreed Currency with the Judgment Currency at or about noon on the Business Day immediately preceding the date on which judgment is given. The obligations of the Chargor in respect of any amount owing or payable under this Debenture to the Holder in the Agreed Currency shall, notwithstanding any judgment and payment in the Judgment Currency, be satisfied only to the extent that the Holder, in accordance with its normal procedures, could purchase the Agreed Currency with the amount of the Judgment Currency so paid at or about noon on the next Business Day following that payment; and if the amount of the Agreed Currency which the Holder could so purchase is less than the amount originally due in the Agreed Currency, the Chargor shall, as separate obligations and notwithstanding the judgment or payment, indemnify the Holder against any loss.

### **8.13 Amendment**

No agreement purporting to change this Debenture shall be binding upon the Chargor or the Holder unless that agreement is in writing and signed by the Chargor and the Holder, respectively.

### **8.14 Receipt of Copy**

The Chargor acknowledges receipt of a copy of this Debenture.

### **8.15 Information**

At any time, the Holder may provide to any Person that claims an interest in Charged Property copies of this Debenture or information about it or about the Charged Property or the Secured Obligations.

### **8.16 Collateral Security**

This Debenture has been issued and delivered by the Chargor to the Holder, and is held by the Holder, as continuing collateral security for the Payment in Full of the Secured Obligations and this Debenture shall not be deemed to have been discharged or redeemed or the amounts payable hereunder to have been satisfied or reduced by reason of the account of the Chargor or the Borrower having ceased to be in debit at any time while this Debenture remained so held.

### **8.17 Further Assurances**

The Chargor shall at all times do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, mortgages, pledges and charges, security agreements, assignments, agreements, debentures and assurances as the Holder may reasonably require in order to give effect to the provisions of this Debenture and for the better securing or perfecting of the Security and the priority accorded to the Security intended under this Debenture. Upon the request of the Holder, the Chargor shall specifically mortgage, pledge, charge, grant a security interest in, or assign in favour of the Holder any property which the Chargor now or hereafter has Rights other than property and assets expressly excluded hereunder and shall execute all documents reasonably required by the Holder in connection therewith. The Chargor constitutes and appoints the Holder acting by any officer for the time being of the Holder located at its address for notices prescribed by the Convertible Debenture to be its attorney with full power of substitution to do on each Chargor's behalf anything that the Chargor can lawfully do by an attorney, including to do, make and execute all such agreements, deeds, acts, matters or things, with the Right to use the name of the Chargor, whenever and wherever it deems necessary or expedient and to carry out each Chargor's Obligations under this Debenture. Such power of attorney, being granted by way of security and coupled with an interest, is irrevocable until Payment in Full of the Secured Obligations. Such power of attorney shall not be exercisable by the Holder (a) unless a Default has occurred and is continuing or (b) unless the Holder has requested the Chargor to take any action required pursuant to this Section 8.17 and (absent a commercially reasonable and justified explanation) the Chargor has failed to do so within a reasonable time after being so requested in writing.

### **8.18 Reimbursements as Secured Obligations**

All amounts for which the Chargor is required hereunder to reimburse the Holder or any Receiver shall, from the date of disbursement until the date the Holder or such Receiver receives reimbursement, be deemed advanced to the Chargor by the Holder or such Receiver, as the case may be, on the faith and security of this Debenture shall be deemed to be Secured Obligations secured by the Security and shall bear interest from the date of disbursement, compounded and payable monthly, both before and after demand, default and judgment, until payment of such amount is paid in full at the Rate.

### **8.19 Discharge and Continuing Security**

- (a) The Holder shall have a reasonable time after the later of (i) Payment in Full of the amounts secured by this Debenture and the termination of any and all commitments of the Holder to extend credit or accommodation to the Chargor, or (ii) full and final satisfaction of all Secured Obligations, to deliver for registration a discharge and all legal and other expenses for preparation, execution and registration, as applicable to such discharge shall be paid by the Chargor.
- (b) Subject to the below, if the Chargor, its Successors or assigns shall Pay in Full or cause to be Paid in Full to the Holder the monies secured by this Debenture and shall otherwise observe and perform the terms hereof, then this Debenture and the Rights hereby granted shall cease and be void and thereupon the Holder shall at

the request and at the expense of the Chargor, its Successors or assigns, cancel and discharge the mortgage and charge of this Debenture and execute and deliver to the Chargor, its Successors or assigns, such deeds and other instruments as shall be requisite to cancel and discharge the mortgage and charge hereby constituted, provided however that this Debenture shall not be deemed to have been discharged or redeemed by reason of the account of the Chargor having ceased to be in debit at any time or times prior to such cancellation and discharge. No postponement or partial release or discharge of the charge in respect of all or any part of the Property shall in any way operate or be construed so as to release and discharge the security hereby constituted in respect of the Property except as therein specifically provided, or so as to release or discharge the Chargor from the Secured Obligations. Only the written cancellation and discharge the mortgage and charge of this Debenture executed and delivered to the Chargor, its Successors or assigns, as set forth above, shall have the effect of cancelling and discharging the mortgage and charge hereby constituted.

- (c) For greater certainty, this Debenture secures payment and performance by the Chargor to the Holder of all debts, liabilities and obligations, including revolving indebtedness, present or future, direct or indirect, absolute or contingent, matured or not, whether from time to time reduced and thereafter increased, or entirely extinguished and thereafter incurred again, now or at any time and from time to time due or owing by the Chargor to the Holder in any currency and whether incurred by the Chargor alone or with another or others and whether as principal or surety, and including without limitation, all interest, commissions, fees, (including receiver's fees), legal costs (on a substantial indemnity basis) and other costs, charges and expenses incurred by the Holder with respect to the debts, liabilities and obligations referred to above.

## **8.20 Paramountcy**

In the event of any conflict between any term or provision of this Debenture and any term or provision of the Convertible Debenture, to the extent of the conflict, the provisions of the Convertible Debenture shall prevail over the provisions of this Debenture. For greater certainty, any provision contained in this Debenture shall not conflict with the Convertible Debenture by reason that such provision is contained in this Debenture and not in the Convertible Debenture. This Debenture is issued and is subject to the terms of the Convertible Debenture.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF** each Chargor set forth below has executed this Debenture under the hands of its duly authorized signatory as a specialty Obligation as of the date and year first above written.

**SOLACE HEALTH INC.**

By: (signed) "Basem Hanna"  
Basem Hanna  
Chief Executive Officer



## SCHEDULE “A”

### DEFINITIONS

1. Unless the context otherwise requires, in this Debenture the following terms are used with their corresponding defined meanings:

“**Award**” means any judgment, decree, injunction, rule, award or order of any Governmental Authority, arbitrator or other decision-making authority of competent jurisdiction.

“**Charged Property**” means all real and personal property made subject to security interests created under Section 3.1, wherever located, now or hereafter owned by any of the Chargor or in or to which any of the Chargor now or hereafter has Rights, including all such Rights, and (as the context so admits) any item or part thereof.

“**Convertible Debenture**” means the Senior Secured Convertible Debenture due July 31, 2018 given by Solace Health Inc. in favour of MMCAP International Inc., SPC or its nominee in the principal amount of \$9,400,000.

“**Debenture**” means this debenture. The terms “**this Debenture**”, “**hereof**”, “**hereunder**” and similar expressions refer to this Debenture and not to any particular Article, Section, Subsection, paragraph, clause or other portion of this Debenture. Each reference to a “**Schedule**” in this Debenture is a reference to a Schedule attached to this Debenture which shall form an integral part hereof.

“**Default**” has the meaning ascribed thereto in Section 6.2.

“**Document**” means any other document to be delivered by the Chargor pursuant to the Convertible Debenture.

“**Documents of Title**” means all documents of title, whether negotiable or non-negotiable, including all warehouse receipts and bills of lading, in which the Chargor now or hereafter has Rights, and (as the context so admits) any item or part thereof.

“**Holder**” is used with the defined meaning given to it in the introduction to this Debenture.

“**Lands**” means the lands and premises as described in Schedule “B”.

“**Leased Premises**” means the premises (if any) leased by the Chargor as tenant, as more particularly described in Schedule “C”.

“**License**” means any Authorization from any Person granting any easement or license with respect to any real or immovable property.

“**Litigation**” means any grievance, investigation, litigation, legal action, lawsuit, mediation, alternative dispute resolution proceeding or other proceeding (whether civil,

administrative, quasi-criminal or criminal) by or before any Governmental Authority, arbitrator or other decision-making authority.

“**Obligations**” shall be construed as indebtedness, obligations, promises, covenants, responsibilities, duties and liabilities (actual or contingent, direct or indirect, matured or unmatured, now existing or arising hereafter), whether arising by agreement or statute, at law, in equity or otherwise, and “**Obliged**”, “**Obligation**” and “**Obligated**” shall be construed in like manner.

“**Order**” means any order, directive, direction or request of any Governmental Authority, arbitrator or other decision-making authority of competent jurisdiction.

“**Payment in Full**” in relation to any Secured Obligations owing to the Holder means permanent, indefeasible and irrevocable payment to the Holder in full of all Secured Obligations, without regard to any compromise, reduction or disallowance of all or any item or part thereof by virtue of the application of any bankruptcy, insolvency or other similar such laws, any law affecting creditors’ rights generally or general principles of equity and the cancellation or expiry of all commitments by the Holder to lend or otherwise extend credit pursuant to or under the terms of the Convertible Debenture and “**Paid in Full**” and “**Pay in Full**” shall (to the extent the context so admits) be construed in like manner.

“**Proceeds**” means all proceeds any form derived directly or indirectly from any disposal of or other dealing with any Charged Property, or that indemnifies or compensates for such Charged Property stolen, lost, destroyed or damaged, and proceeds of Proceeds whether or not of the same type, class or kind as the original Proceeds, and (as the context so admits) any item or part thereof.

“**Receiver**” means any receiver for the Charged Property or any of the business, undertakings, property and assets of any Chargor appointed by the Holder pursuant to this Debenture or by a court on application by the Holder and shall be construed to include a privately appointed or court appointed receiver or receiver and manager, interim receiver, liquidator, trustee-in-bankruptcy, administrator, administrative receiver and any other like or similar official.

“**Recovery**” means any monies received or recovered by the Holder pursuant to this Debenture on account of the Secured Obligations, whether pursuant to any enforcement of the Security, any Litigation, any settlement thereof or otherwise.

“**Replacements**” means all increases, improvements, extensions, additions and accessions to, and all substitutions for and replacements of, any item or part of the Charged Property, and any item or part thereof.

“**Representative**” of any Person means any director, officer, employee, agent, legal counsel, accountant, financial advisor, expert, manager, consultant or other representative appointed, engaged or employed by such Person.

“**Rights**” shall be construed as rights, titles, benefits, interests, powers, authorities, discretions, privileges, immunities and remedies (actual or contingent, direct or indirect, matured or unmatured, now existing or arising hereafter), whether arising by agreement or statute, at law, in equity or otherwise, and “**Right**” shall be construed in like manner.

“**Secured Obligations**” means any and all obligations, indebtedness and liability of the Chargor to the Holder and its respective successors and assigns from time to time, (including interest thereon and all fees, costs and expenses) present or future, direct or indirect, absolute or contingent, matured or not, extended or renewed, and any ultimate unpaid balance thereof and whether the same is from time to time reduced and thereafter increased or entirely extinguished and thereafter incurred again, and whether the Chargor be bound alone or with another or others and whether as principal or surety, howsoever arising or incurred under or in connection with or by virtue of this Debenture, the Convertible Debenture or any of the other Documents.

“**Security**” means any and all Security Interests granted by the Chargor to the Holder in this Debenture.

“**Security Interest**” means any mortgage, charge, lien, hypothec or encumbrance, whether fixed or floating on, or any security interest in, any property, whether real, personal or mixed, tangible or intangible, any pledge or hypothecation of any property, any deposit arrangement, priority agreement, conditional sale agreement, other title retention agreement or equipment trust, any capital lease or similar arrangement or other security arrangement of any kind.

“**Set-off**” means any Right or Obligation of set-off, compensation, offset, combination of accounts, netting, retention, withholding, reduction, deduction or any similar Right or Obligation, or (as the context requires) any exercise of any such Right or performance of such Obligation.

“**Successor**” of a Person (the “**Relevant Party**”) shall be construed so as to include (i) any amalgamated or other body corporate of which the Relevant Party or any of its successors is one of the amalgamating or merging body corporates, (ii) any body corporate resulting from any court approved arrangement of which the Relevant Party or any of its successors is party, (iii) any Person to whom all or substantially all the undertakings, property and assets of the Relevant Party is transferred, (iv) any body corporate resulting from the continuance of the Relevant Party or any successor of it under the laws of another jurisdiction of incorporation and (v) any successor (determined as aforesaid or in any similar or comparable procedure under the laws of any other jurisdiction) of any Person referred to in clause (i), (ii), (iii) or (iv) of this definition. Each reference in this Debenture to any party hereto or any other Person shall (where the context so admits) include its successors.

**SCHEDULE "B"**

**LANDS**

**Municipal Address: 3610 Mavis Road, Mississauga, Ontario**

PIN 13366-0100 (LT):

PT LT 21 CON 1 NDS TORONTO; PT RDAL BTN LTS 20 & 21 CON 1 NDS  
MISSISSAUGA CLOSED BY BL 937 PT 11, 43R1132; CITY OF  
MISSISSAUGA

**Schedule D – Conversion Notice**

**TO: SOLACE HEALTH INC. (the “Borrower”)**

Pursuant to the Senior Secured Convertible Debenture (the “**Debenture**”) of the Borrower issued to the undersigned on \_\_\_\_\_, 2017, the undersigned hereby notifies you that \$\_\_\_\_\_ of the Principal Amount outstanding under the Debenture shall be converted into Common Shares of the Borrower in accordance with the terms of the Debenture on \_\_\_\_\_, 2017.

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Debenture.

The Common Shares to be issued shall be registered as follows:

Name	Address for Delivery of Certificate or Direct Registration Statement	# of Common Shares

\_\_\_\_\_  
(Print name as name is to appear on Share Certificate or Direct Registration Statement)

**DATED this \_\_\_\_\_ day of \_\_\_\_\_, 201\_.**

[NAME]

By: \_\_\_\_\_

Name:

Title:

**Schedule E – Form of Transfer**

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers to:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_

(the “**Transferee**”), of \$ \_\_\_\_\_ principal amount of Senior Secured Convertible Debenture of Solace Health Inc. issued on \_\_\_\_\_, 2017 registered in the name of the undersigned on the register of Debentures represented by the attached Debenture, and irrevocably appoints \_\_\_\_\_ as the attorney of the undersigned to transfer to the Transferee the said principal amount of the Debenture on the books or register of transfer, with full power of substitution.

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

[NAME]

By: \_\_\_\_\_

Name:

Title:

**Note to Debentureholder:** In order to transfer the Debenture, this transfer form must be delivered to Solace Health Inc.

**Schedule F – Securities Pledge Agreement**

## SECURITIES PLEDGE AGREEMENT

This securities pledge agreement (this "**Agreement**") is made the \_\_\_\_ day of \_\_\_\_\_, 201\_\_\_\_,

### Between:

**SOLACE HEALTH INC.**,  
a corporation existing under the laws  
of the Province of Ontario

(the "**Borrower**")

- and -

**MMCAP INTERNATIONAL INC. SPC**  
an exempted company incorporated  
under the Companies Law (as  
amended) of the Cayman Islands

(the "**Lender**")

### Whereas:

- (a) pursuant to a senior secured convertible debenture dated as of \_\_\_\_\_, 2017 (as amended, supplemented, restated or replaced from time to time, the "**Debenture**") granted by the Borrower in favour of the Lender, the Lender has agreed to provide certain financial accommodations to the Borrower, as more particularly set out in the Debenture;
- (b) as a condition to the Lender making the financial accommodations to the Borrower pursuant to the Debenture, the Borrower is required to execute and deliver this Agreement to the Lender.

**Now therefore** for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Borrower agrees with the Lender as follows:

**1. Obligations Secured.** The Security Interest (as hereinafter defined) is granted to the Lender by the Borrower as general and continuing security for the prompt and complete payment and performance of all present and future obligations of the Borrower to the Lender, whether direct or indirect, contingent or absolute, under the Debenture and this Agreement, and all other documents or agreements entered into in connection with any of the foregoing (collectively, the "**Obligations**").

**2. Defined Terms.** Unless otherwise defined herein, capitalized terms used herein that are defined in the STA or PPSA, as applicable, shall have the meanings given to them in the STA or PPSA, as applicable; provided that in any event, the following terms shall have the meanings assigned to them in the STA or PPSA, as applicable:

"Account"; "Certificated Securities"; "Control"; "Entitlement Holder"; "Financial Asset"; "Investment Property"; "proceeds"; "Securities Account"; "Securities Intermediary";



“Security”; “Security Entitlement”; and “Uncertificated Security”; where “**STA**” means the *Securities Transfer Act, 2006* (Ontario), as may be amended or replaced from time to time, and includes all regulations from time to time made under such legislation, or similar legislation in any other applicable jurisdiction; and “**PPSA**” means the *Personal Property Security Act* (Ontario), as may be amended or replaced from time to time, and includes all regulations and Minister’s Orders from time to time made under such legislation, or similar legislation in any other applicable jurisdiction.

**3. Creation of Security Interest.** The Borrower hereby mortgages, pledges, hypothecates, transfers, assigns and charges to the Lender, and hereby grants to the Lender a security interest in (collectively, the “**Security Interest**”) all of the Borrower’s right, title and interest in the following:

- (a) all Securities (including any Uncertificated Securities and all substitutions therefor and dividends and income derived therefrom) now owned or hereafter acquired by the Borrower, including all Securities listed on Schedule “A” hereto (collectively, the “**Pledged Securities**”);
- (b) all Securities Accounts in which any Security Entitlements to any Pledged Securities are carried, all Security Entitlements to any Pledged Securities, all Financial Assets and all Investment Property, in each case now owned or hereafter acquired by the Borrower; and
- (c) all income derived from or in respect of the foregoing, including, without limitation, all interest and dividends (whether in the form of cash, securities or any other property), all monies and property received or receivable in the nature of the return or repayment of capital in respect of any Pledged Securities, and all proceeds of the foregoing in any form.

The items listed in (a) through (c) above are collectively called the “**Collateral**”. Any reference in this agreement to Collateral shall mean Collateral or any part thereof, unless the context otherwise requires.

**4. Registration of Securities.** Until further notice by the Lender, the certificates representing the Pledged Securities may remain registered in the name of the Borrower.

**5. Attachment.** The parties acknowledge that value has been given, the Borrower has rights in the Collateral, and the parties have not agreed to postpone the time for attachment of the Security Interest. In respect of Collateral in which the Borrower obtains an interest after the date of this Agreement, the Security Interest shall attach thereto immediately upon the Borrower obtaining such rights.

**6. Dealings with Collateral.** Until the Security Interest becomes enforceable, the Borrower may vote the Pledged Securities and receive all distributions and dividends (collectively, the “**Distributions**”) related thereto; provided that after the Security Interest becomes enforceable, all Distributions, along with all proceeds received by the Borrower in respect of the Pledged Securities shall be immediately remitted to the Lender (which, until remitted, shall be held by the Borrower as agent and in trust for the Lender). Such proceeds shall be applied against the Obligations or, at the option of the Lender, shall remain subject to the Security Interest and shall be held as additional security for the Obligations.

**7. Representations and Warranties.** The Borrower hereby represents and warrants as follows to the Lender and acknowledges that the Lender is relying thereon:

- (a) the Borrower has the capacity and authority to incur the Obligations, create the Security Interest and perform its obligations under this Agreement;
- (b) except for the Security Interest and Permitted Encumbrances (as defined in the Debenture), the Borrower is and will be the sole beneficial owner of the Collateral free from any mortgage, lien, charge, encumbrance, pledge, security interest or other claim whatsoever;
- (c) the chief executive office and registered head office of the Borrower is located at the address(es) of the Borrower set out on the signing page of this Agreement;
- (d) all of the Pledged Securities that are Certificated Securities are represented by the certificates listed on Schedule "A";
- (e) all of the Pledged Securities have been, where applicable, duly and validly issued and acquired and are fully paid, and in the case of shares, non-assessable;
- (f) the Collateral does not include any shares in any unlimited liability company or unlimited liability corporation ("**ULC Shares**"); and
- (g) the terms of any interest in a partnership or limited liability company that is Collateral expressly provide that the interest is a "security" for purposes of the STA.

**8. Covenants of Borrower.** The Borrower covenants and agrees in favour of the Lender as follows:

- (a) to defend its title to the Collateral and the Security Interest against the claim of any person and assist in the maintenance and preservation of the Security Interest;
- (b) not to sell, exchange, transfer, assign, or otherwise dispose of or deal in any way with the Collateral or any interest therein, or enter into any agreement or undertaking to do so, except as may be permitted in this Agreement or the Debenture;
- (c) to promptly notify the Lender of any change of name of the Borrower or of any other information provided in this Agreement;
- (d) if any Securities now owned by the Borrower are or become Uncertificated Securities registered in the name of the Borrower, to so inform the Lender and, at the request of the Lender, cause the issuer to register the Lender or its nominee as the registered owner of such Securities or otherwise cause the Lender to have Control over such Securities;
- (e) if any Securities now owned by the Borrower are or become Certificated Securities, to so inform the Lender and, at the request of the Lender, deliver

them to the Lender or its nominee or otherwise grant Control over such Securities to the Lender;

- (f) if the Borrower now has or hereafter acquires any Securities Accounts or Security Entitlements (collectively, the “**Entitlements**”), to so inform the Lender and, at the request of the Lender, take all necessary action to ensure that the Lender becomes the Entitlement Holder of such Entitlements or enter into a control agreement with the Lender and the applicable Securities Intermediary, in form and substance satisfactory to the Lender, in respect of such Entitlements;
- (g) to notify the Lender in writing, and provide particulars of, within 15 days after any acquisition of, any Financial Assets, Securities or other Investment Property hereafter and, upon request by the Lender, to promptly deliver to and deposit with the Lender, or cause the Lender to have Control over, such, Financial Assets, Securities or other Investment Property as security for the Obligations; and
- (h) to promptly inform the Lender in writing, and provide particulars of, any ULC Shares acquired by the Borrower within 15 days after acquisition.

**9. Enforcement.** The Security Interest shall become enforceable immediately upon the occurrence of an Event of Default (as defined in the Debenture) subject to any applicable notice and/or period for remedy of that Event of Default in accordance with the Debenture.

**10. Remedies.** In the event that the Security Interest becomes enforceable, the Lender shall have the following remedies in addition to any other remedies available at law or equity or contained in any other agreement between the Borrower and the Lender, all of which shall be independent and cumulative:

- (a) take possession of Collateral by any method permitted by law and transfer and register in its own name or the name of its nominee (if not already done) any of the Pledged Securities or other Collateral;
- (b) sale of Collateral;
- (c) voting of any Securities that are part of the Collateral and the collection and receipt of any Distributions;
- (d) appointment by instrument in writing of a receiver or a receiver and manager (each of which is herein called a “**Receiver**”) of the Collateral;
- (e) exercise by the Lender of any of the powers set out in Section 11, without the appointment of a Receiver;
- (f) proceedings in any court of competent jurisdiction for the appointment of a Receiver or for the sale of the Collateral; and
- (g) filing of proofs of claim and other documents in order to have the claims of the Lender lodged in any bankruptcy, winding-up or other judicial proceeding relating to the Borrower.

**11. Powers of Receiver.** Any Receiver appointed by the Lender may be any person or persons, and the Lender may remove any Receiver so appointed and appoint any other(s) instead. Any Receiver appointed may act as agent for the Lender for the purposes of taking possession of the Collateral and as agent for the Borrower for other purposes of enforcement of the Security Interest. The Borrower agrees to ratify and confirm all actions of the Receiver acting as agent for the Borrower, and to release and indemnify the Receiver in respect of all such actions. Any Receiver appointed shall have the following powers:

- (a) to borrow money required for the maintenance, preservation or protection of the Collateral, and in the discretion of such Receiver, to charge and grant further security interests in the Collateral in priority to the Security Interest, as security for the money borrowed;
- (b) to sell or otherwise dispose of all or part of the Collateral on such terms and conditions and in such manner as the Receiver shall determine in its discretion; and
- (c) to exercise any rights or remedies which could have been exercised by the Lender against the Borrower or the Collateral.

**12. Application of Payments.** All payments made in respect of the Obligations and all monies received by the Lender or any Receiver on enforcement of the Security Interest may be held as security for the Obligations or applied in payment of such part or parts of the Obligations as the Lender may determine in its discretion. The Borrower shall remain liable to the Lender for any deficiency, and any surplus funds realized after the satisfaction of all Obligations shall be paid in accordance with applicable law.

**13. Standards of Sale.** The Borrower and the Lender acknowledge that any sale of Pledged Securities must occur in compliance with the relevant provisions of the *Securities Act* (Ontario) and similar legislation in other applicable jurisdictions ("**Securities Laws**"), and that the Lender shall not be obliged to effect a public sale of the Pledged Securities and may sell the Pledged Securities pursuant to one or more private sales to a restricted group of purchasers who may be obliged to agree, among other things, to acquire the Pledged Securities as principal and to comply with certain resale restrictions. The Lender shall be under no obligation to delay a sale of such Pledged Securities for any period of time in order to permit the Issuer(s) or any other person to qualify such Pledged Securities for public sale under Securities Laws. The Lender shall be under no obligation to sell the Pledged Securities as a "control block" or at a premium to the "market price", as defined under applicable Securities Laws. The Borrower acknowledges that any private sale may result in prices and other terms which may be less favourable than a public sale or a control block sale, and the Borrower agrees that any such sale shall not, solely by reason of its being a private sale, be deemed to have not been made in a commercially reasonable manner. Upon the Security Interest becoming enforceable, the Borrower consents, and agrees to use reasonable efforts to cause the Issuer(s) to consent to the disclosure by the Lender to the public generally and to any prospective purchaser of the Pledged Securities of any information relating to the Pledged Securities, whether or not such information may be considered confidential.

**14. Dealings by the Lender.** The Lender may grant extensions of time and other indulgences, take and give up securities, grant releases and discharges, and otherwise deal with the Collateral, the Borrower, debtors of the Borrower, guarantors and sureties of the Borrower, the Issuer(s) and Securities Intermediaries and others as the Lender may see fit,

without prejudice to the Obligations and the rights of the Lender to hold and realize upon the Security Interest. The Lender has no obligation to keep Collateral identifiable, or to preserve rights against secured creditors in respect of any Collateral or to protect any Collateral from depreciating in value. The Lender shall not be liable for any delay or failure to enforce any remedies available to it or any delay or failure to institute any proceedings for such purposes.

**15. Notice.** Any demand, notice, direction or other communication to be made or given hereunder shall be made in accordance with the Debenture.

**16. Power of Attorney.** The Borrower hereby constitutes and appoints the Lender or any officer thereof as its true and lawful attorney, effective upon the Security Interest becoming enforceable, with full power of substitution, to execute all documents and take all actions as may be necessary or desirable to perform any obligations of the Borrower arising pursuant to this Agreement, and in executing such documents and taking such actions, to use the name of the Borrower whenever and wherever it may be considered necessary or expedient. These powers are coupled with an interest and are irrevocable until all of the Obligations have been repaid in full.

**17. Separate Security.** This Agreement and the Security Interest are in addition to and not in substitution for any other security now or hereafter held by the Lender in respect of the Borrower, the Obligations or the Collateral and any other present and future rights or remedies which the Lender might have.

**18. The Lender Not Obligated to Advance.** Nothing in this Agreement shall obligate the Lender to make any loan, conditional contribution or other accommodation to the Borrower or any other party in connection with this Agreement, or extend the time for payment or satisfaction of any Obligations.

**19. Amendments.** This Agreement may not be amended or otherwise modified except by an instrument in writing signed by all parties hereto.

**20. Amalgamation of Borrower.** The Borrower acknowledges and agrees that in the event that it amalgamates with any other persons (which it shall not do to the extent it is prohibited from so doing under the Debenture) then the Collateral and the Security Interest shall extend to and include all like property of the amalgamated corporation and all references herein to Borrower shall extend to and include the amalgamated corporation and all references herein to obligations shall extend to and include all of the debts, liabilities and obligations of every type and kind of the amalgamated corporation.

**21. Waivers.** The Lender shall not, by any act, delay, omission or otherwise, be deemed to have expressly or impliedly waived any of its rights, powers or remedies unless such waiver is in writing and signed by the Lender. Any such waiver given on any one occasion shall not operate as a waiver on any future occasion or be construed as a bar to or waiver of any other right, power or remedy.

**22. Assignment.** The Borrower may not assign its obligations under this Agreement without the prior written consent of the Lender. The rights of the Lender under this Agreement may be assigned without the prior consent of the Borrower. This Agreement shall enure to the benefit of the Lender and its successors and assigns, and shall be binding upon the Borrower and its successors and permitted assigns.

**23. Discharges.** Upon payment and performance in full of the Obligations, the Lender shall at the request and expense of the Borrower release the Security Interest and reassign the Collateral to the Borrower without recourse, and execute and deliver all releases or discharges as may be reasonably required.

**24. Number and Persons.** Unless the context otherwise requires, words importing the singular shall include the plural and *vice versa* and words importing persons shall include individuals, corporations, partnerships, associations, trusts, unincorporated organizations, governmental bodies and other legal or business entities.

**25. Severability.** If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall not invalidate or render unenforceable the remaining provisions hereof.

**26. Time.** Time shall be of the essence of this Agreement.

**27. Electronic Transmission.** Delivery of an executed copy of a signature page to this Agreement by fax or pdf shall be as effective as delivery of a manually executed copy of this Agreement and the Borrower undertakes to provide the Lender with a copy of this Agreement bearing original signatures forthwith upon demand.

**28. Governing Law.** This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

**29. Entire Agreement.** This Agreement, the Debenture and any other documents referred to herein or in the Debenture constitute the entire agreement between the Borrower and the Lender relating to the subject matter hereof and supersede all prior agreements and understandings, whether oral or written, with respect to the subject matter hereof.

**30. Expenses.** The Borrower shall pay upon demand to the Lender all expenses, including the reasonable legal, accounting, Receiver's and agent's fees and disbursements which the Lender may incur in connection with the (i) custody or preservation of, or the sale of, collection from or other realization of Collateral, (ii) exercise, enforcement or protection of any of the rights of the Lender hereunder or (iii) failure of the Borrower to perform or observe any of the provisions hereof.

**31. Further Assurances.** The Borrower shall, at its own expense and from time to time, do or file, or cause to be done or filed, all such things and shall execute and deliver all such documents, agreements, opinions, certificates and instruments reasonably requested by the Lender to establish in favour of the Lender the Security Interest and carry out the intention of this Agreement.

**32. Paramountcy.** If there is any conflict or inconsistency between this Agreement and the Debenture, the provisions of the Debenture shall govern and prevail to the extent necessary to reconcile such conflict or inconsistency.

**33. Copy of Agreement.** The Borrower acknowledges receipt of an executed copy of this Agreement.

**[Signature Page Follows.]**

**IN WITNESS WHEREOF**, this Agreement has been executed by the Borrower and the Lender on the date first stated above.

**SOLACE HEALTH INC.**

By: \_\_\_\_\_

Name:

Title:

I have authority to bind the Corporation

3610 Mavis Road  
Mississauga, Ontario  
L5C 1W2

(registered head office and chief executive  
office of Borrower)

**MMCAP INTERNATIONAL INC. SPC**

By: \_\_\_\_\_

Name:

Title:

I have authority to bind the Corporation

**Schedule "A"**

<b>Pledged Entity</b>	<b>Type of Pledged Securities</b>	<b>Number of Pledged Securities</b>	<b>Percentage of Total Securities Outstanding</b>	<b>Certificate Number(s)</b>



**Schedule G – General Security Agreement**

## GENERAL SECURITY AGREEMENT

This agreement (this “**Agreement**”) is made the \_\_\_\_ day of \_\_\_\_\_, 201\_\_\_\_,

**By:**

\_\_\_\_\_, a corporation existing  
under the laws of \_\_\_\_\_

(the “**Guarantor**”)

**In favour of:**

**MMCAP INTERNATIONAL INC. SPC,**  
an exempted company incorporated with  
limited liability under the laws of the  
Cayman Islands

(the “**Debentureholder**”)

**WHEREAS:**

- (a) pursuant to a convertible debenture dated as of \_\_\_\_\_, 2017 (as amended, supplemented, restated or replaced from time to time, the “**Debenture**”) issued by Solace Health Inc. (the “**Issuer**”), as borrower to the Debentureholder, the Debentureholder has agreed to make the Principal Amount (as defined therein) available to the Issuer, as more particularly set out in the Debenture;
- (b) pursuant to a guarantee and confirmation dated the date hereof granted by the Guarantor in favour of the Debentureholder (as amended, supplemented, restated or replaced from time to time, the “**Guarantee**”), the Guarantor has guaranteed the indebtedness, liabilities and obligations of the Issuer under the Debenture; and
- (c) as security for the obligations of the Guarantor under the Debenture, the Guarantor is required to execute and deliver this Agreement in favour of the Debentureholder.

**NOW THEREFORE** for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Guarantor agrees with the Debentureholder as follows:

1. **Obligations Secured.** The Security Interest (as hereinafter defined) is granted to the Debentureholder by the Guarantor as general and continuing security for the prompt and complete payment and performance of all present and future obligations of the Guarantor to the Debentureholder, whether direct or indirect, contingent or absolute, under the Debenture, and all other documents or agreements entered into in connection therewith (collectively, the “**Obligations**”).

2. **Defined Terms.** Unless otherwise defined herein, capitalized terms used herein that are defined in the PPSA or the STA, as applicable, shall have the meanings assigned to them in the PPSA or the STA, as applicable:

“Account”; “Chattel Paper”; “Certificated Securities”; “Consumer Goods”; “Control”; “Document of Title”; “Entitlement Lead Subscriber”; “Equipment”; “Financial Asset”; “Goods”; “Instruments”; “Inventory”; “Investment Property”; “Money”; “Proceeds”; “Security”; “Securities Account”; “Securities Intermediary”; “Security Entitlement”; and “Uncertificated Security”;

where “**PPSA**” means the *Personal Property Security Act* (Ontario) and “**STA**” means the *Securities Transfer Act, 2006* (Ontario), as may be amended or replaced from time to time, and include all regulations and Minister’s Orders from time to time made under such legislation, or similar legislation in any other applicable jurisdiction.

3. **Creation of Security Interest.**

- (a) The Guarantor hereby mortgages, pledges, hypothecates, transfers, assigns and charges to the Debentureholder, and hereby grants to the Debentureholder a security interest in (collectively, the “**Security Interest**”) all present and after-acquired undertaking and property of the Guarantor of any nature whatsoever (such undertaking and property are referred to collectively as the “**Collateral**”) including, without limitation, in all Accounts; Equipment; Goods; Inventory; fixtures; Documents of Title (whether negotiable or not); Instruments (including all promissory notes, drafts, bills of exchange or acceptances); Chattel Paper; Securities (including any Uncertificated Securities and all substitutions therefor and dividends and income derived therefrom, (collectively, the “**Pledged Securities**”)); Securities Accounts and Security Entitlements now owned or hereafter acquired by or on behalf of the Guarantor (including such as may be returned to or repossessed by the Guarantor); Investment Property; Financial Assets; intangible personal property, including all contract rights, goodwill, patents, trademarks, copyrights and other intellectual property, and all other choses in action of the Guarantor of every kind, whether due at the present time or hereafter (collectively, “**General Intangibles**”); Money; letters of credit or secondary obligations that support the payment or performance of an Account, Chattel Paper, Document of Title, General Intangible, Instrument or Investment Property; all books and records pertaining to the Collateral; and to the extent not covered previously in this Section 3, all other personal property of such Guarantor, whether tangible or intangible, and all Proceeds and products of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of, each of the foregoing, any and all Proceeds of any insurance, indemnity, warranty or guarantee payable to the Guarantor from time to time with respect to any of the foregoing.
- (b) Notwithstanding Section 3(a), the following personal property shall be excluded from Collateral:

- (i) the Medical Marijuana Production License held or obtained by the Guarantor, if any, under the ACMPR (as defined below); and
  - (ii) purchase-money security interests, as such term is defined in the PPSA.
- (c) Without limiting the generality of the description of Collateral as set out in this Section 3, the Collateral shall include all present and future personal property of the Guarantor located on or about or in transit to or from the addresses of the Guarantor set out in this Agreement and the location(s) set out in Schedule “A” attached hereto, and shall not include any Consumer Goods.
- (d) The Debentureholder acknowledges and agrees that its rights and remedies in and to the Collateral pursuant to this Agreement shall be subject to the *Access to Cannabis for Medical Purposes Regulations* (Canada) made under the *Controlled Drugs and Substances Act* (Canada) (the “ACMPR”) and other applicable law.

4. **Exception re Leasehold Interests and Contractual Rights.** The last day of the term of any lease, sublease or agreement therefor is specifically excepted from the Security Interest, but the Guarantor agrees to stand possessed of such last day in trust for any person acquiring such interest of the Guarantor. To the extent that the creation of the Security Interest would constitute a breach or cause the acceleration of any agreement, right, licence or permit to which the Guarantor is a party, the Security Interest shall not attach thereto, but the Guarantor shall hold its interest therein in trust for the Debentureholder, and the Security Interest shall attach thereto forthwith upon obtaining the consent of the other party thereto.

5. **Attachment.** The Guarantor acknowledges and agrees that (i) value has been given, (ii) the Guarantor has rights in the Collateral, and (iii) the Security Interest shall attach to existing Collateral when the Guarantor signs this Agreement and to after-acquired Collateral at the time that the Guarantor acquires rights therein.

6. **Dealings with Collateral.** Until the Security Interest becomes enforceable, the Guarantor may vote the Securities and other Financial Assets and receive all distributions and dividends (collectively, the “Distributions”) related thereto, sell its Inventory and collect its Accounts in the ordinary course of its business; provided that after the Security Interest becomes enforceable, all such Accounts and Distributions collected by the Guarantor shall be immediately remitted to the Debentureholder (which, until remitted, shall be held by the Guarantor as agent and in trust for the Debentureholder).

7. **Notification to Account Issuers.** The Debentureholder may, after the Security Interest becomes enforceable, notify any person obligated to the Guarantor in respect of an Account, Chattel Paper or Instrument constituting Collateral to make payment to the Debentureholder of all such present and future amounts due thereon.

8. **Representations and Warranties.** The Guarantor hereby represents and warrants as follows to the Debentureholder and acknowledges that the Debentureholder are relying thereon:

- (a) the Guarantor has the capacity and authority to incur the Obligations, create the Security Interest and perform its obligations under this Agreement;

- (b) except for the Security Interest and Permitted Encumbrances (as defined in the Debenture (collectively, “**Permitted Encumbrances**”)), the Collateral is owned by the Guarantor free from any mortgage, lien, charge, encumbrance, pledge, security interest or other claim whatsoever;
- (c) the chief executive office of the Guarantor and the registered head office of the Guarantor are located as set out on the signing page of this Agreement; and
- (d) the Collateral is located only at the location(s) set out in Schedule “A” attached hereto.

9. **Covenants of Guarantor.** The Guarantor covenants and agrees in favour of the Debentureholder as follows:

- (a) to pay or satisfy the Obligations when due;
- (b) to keep the Collateral free and clear of all taxes, assessments, liens, mortgages, charges, claims, encumbrances and security interests whatsoever, except for the Security Interest and Permitted Encumbrances;
- (c) not to sell, exchange, transfer, assign, lease or otherwise dispose of the Collateral or any interest therein, or enter into any agreement or undertaking to do so, except in the ordinary course of business conducted consistently and to the extent that such sale, exchange, transfer, assignment, lease or other disposition would not reasonably be expected to have a material adverse affect on the ability of the Guarantor to fulfill the Obligations, and except as permitted in this Agreement or the Debenture or otherwise upon the prior written consent of the Debentureholder; and
- (d) to promptly notify the Debentureholder of any material loss or damage to the Collateral, and of any change of name or address of the Guarantor or any other information provided in this Agreement, including the address(es) where Collateral is located.

10. **Enforcement.** The Security Interest shall become enforceable upon the occurrence and during the continuance of an Event of Default (as such term is defined in the Debenture (“**Event of Default**”)) which has not been waived or cured by the Debentureholder.

11. **Remedies.** In the event that the Security Interest becomes enforceable, and subject at all times to any other security interests of any other Debentureholder that rank *pari passu* (as such term is defined in the Debenture), the Debentureholder shall have the following remedies in addition to any other remedies available at law or equity or contained in the Debenture or in any other agreement between the Guarantor and the Debentureholder, all of which shall be independent and cumulative:

- (a) entry of any premises where Collateral may be located;
- (b) possession of Collateral by any method permitted by law;

- (c) sale or lease of Collateral;
- (d) collection of any rents, income and profits received in connection with the business of the Guarantor or the Collateral;
- (e) collection, realization, sale or other dealing with any Accounts;
- (f) the voting of any Securities and Financial Assets that are part of the Collateral, the collection and receipt of any Distributions and, if necessary, causing such Securities and Financial Assets to be registered in the name of the Debentureholder or its nominee if not already done, or transferred to an Account maintained with the Debentureholder;
- (g) appointment by instrument in writing of a receiver or a receiver and manager (each of which is herein called a “**Receiver**”) of the Collateral;
- (h) exercise by the Debentureholder of any of the powers set out in this Section 11, without the appointment of a Receiver;
- (i) proceedings in any court of competent jurisdiction for the appointment of a Receiver or for the sale of the Collateral; and
- (j) filing of proofs of claim and other documents in order to have the claims of the Debentureholder lodged in any bankruptcy, winding-up or other judicial proceeding relating to the Guarantor.

12. **Powers of Receiver.** Any Receiver appointed by the Debentureholder may be any person or persons, and the Debentureholder may remove any Receiver so appointed and appoint any other(s) instead. Any Receiver appointed may act as agent for the Debentureholder for purposes of taking possession of the Collateral and as agent for the Guarantor for other purposes of enforcement of the Security Interest. The Guarantor agrees to ratify and confirm all actions of the Receiver acting as agent for the Guarantor, and to release and indemnify the Receiver in respect of all such actions, except in the case of such Receiver’s gross negligence or wilful misconduct. Any Receiver appointed shall have the following powers, subject at all times to any other security interests of any other Debentureholder that rank *pari passu* (as such term is defined in the Debenture):

- (a) to enter upon, use and occupy all premises owned or occupied by the Guarantor;
- (b) to take possession of the Collateral;
- (c) to borrow money required for the maintenance, preservation or protection of the Collateral, and in the discretion of such Receiver, to charge and grant further security interests in the Collateral in priority to the Security Interest, as security for the money borrowed;
- (d) to sell, lease or otherwise dispose of all or part of the Collateral on such terms and conditions and in such manner as the Receiver shall determine in its discretion;

- (e) to demand, commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and to give valid and effectual receipts and discharges therefor and to compromise or give time for the payment or performance of all or any part of the Accounts or any other obligation of any third party to the Guarantor; and
- (f) to exercise any rights or remedies which could have been exercised by the Debentureholder against the Guarantor or the Collateral.

13. **Disposition.** In the event that the Security Interest becomes enforceable, and subject at all times to any other security interests of any other Debentureholder that rank *pari passu* (as such term is defined in the Debenture), the Debentureholder may sell, lease or otherwise dispose of any Collateral as a whole or in separate parcels by public auction or private tender or by private contract with or without notice or advertising and without any other formality, all of which are hereby expressly waived by the Guarantor and any such sale, lease or disposition shall be on such terms and conditions as to credit, as to upset or reserve bid or price and otherwise as the Debentureholder may consider commercially reasonable. In the event that any disposition is made on credit or part cash and part credit, the Debentureholder need only credit the actual cash received at the time of disposition against the Obligations and any payments made pursuant to any credit granted at the time of the disposition shall be credited against the Obligations as and when received. The Debentureholder may rescind, terminate or vary any contract for the sale, lease or disposition of any Collateral and may resell, relet or otherwise redispense of the Collateral without being accountable or otherwise liable for any loss occasioned thereby. Any sale, lease or other disposition of any Collateral may be made by the Debentureholder whether or not it has taken possession of the Collateral.

14. **Application of Payments.** All payments made in respect of the Obligations and all Money received by the Debentureholder or any Receiver on enforcement of the Security Interest (including the receipt of any Money) may be held as security for the Obligations or applied in payment of such part or parts of the Obligations as the Debentureholder may determine. The Guarantor shall remain liable to the Debentureholder for any deficiency; and any surplus funds realized after the satisfaction of all Obligations shall be paid in accordance with applicable law.

15. **Dealings by the Debentureholder.** The Debentureholder may grant extensions of time and other indulgences, take and give up securities, grant releases and discharges, and otherwise deal with the Collateral, the Guarantor, debtors of the Guarantor, guarantors and sureties of the Guarantor, issuers of Securities and Securities Intermediaries, and others as the Debentureholder may see fit, without prejudice to the Obligations and the rights of the Debentureholder to hold and realize upon the Security Interest. The Debentureholder has no obligation to keep Collateral identifiable, or to preserve rights against prior secured creditors in respect of any Collateral or to protect any Instruments, Financial Assets, Securities or other Investment Property from depreciating in value. The Debentureholder shall not be liable for any delay or failure to enforce any remedies available to it or any delay or failure to institute any proceedings for such purposes. The Debentureholder shall not, by any act, delay, omission or otherwise, be deemed to have expressly or impliedly waived any of its rights, powers or remedies unless such waiver is in writing and signed by the Debentureholder. Any such waiver given on any one occasion shall

not operate as a waiver on any future occasion or be construed as a bar to or waiver of any other right, power or remedy.

16. **Notice.** Any demand, notice, direction or other communication to be made or given hereunder shall be made in accordance with the provisions of the Debenture.

17. **Power of Attorney.** Guarantor hereby constitutes and appoints the Debentureholder or any officer thereof as its true and lawful attorney, effective upon the Security Interest becoming enforceable, with full power of substitution, to execute all documents and take all actions as may be necessary or desirable to perform any obligations of the Guarantor arising pursuant to this Agreement, and in executing such documents and taking such actions, to use the name of the Guarantor whenever and wherever it may be considered necessary or expedient. These powers are coupled with an interest and are irrevocable until all of the Obligations have been repaid in full.

18. **Separate Security.** This Agreement and the Security Interest are in addition to and not in substitution for any other security now or hereafter held by the Debentureholder in respect of the Guarantor, the Obligations or the Collateral and any other present and future rights or remedies which any Debentureholder might have with respect thereto.

19. **Amalgamation of Guarantor.** The Guarantor acknowledges and agrees that in the event that it amalgamates with any other persons then the Collateral and the Security Interest shall extend to and include all like property of the amalgamated corporation and all references herein to Guarantor shall extend to and include the amalgamated corporation and all references herein to obligations shall extend to and include all of the debts, liabilities and obligations of every type and kind of the amalgamated corporation.

20. **Amendments.** This Agreement may not be amended or otherwise modified except by an instrument in writing executed by the Debentureholder and the Guarantor.

21. **Assignment.** The Guarantor may not assign its obligations under this Agreement without the prior written consent of the Debentureholder. The rights of the Debentureholder under this Agreement may be assigned upon notice to the Guarantor. This Agreement shall enure to the benefit of the Debentureholder and their successors and assigns, and shall be binding upon the Guarantor and its successors and permitted assigns.

22. **Discharges.** Upon payment and performance in full of the Obligations, this Agreement will terminate automatically and the Guarantor shall, at its own expense, discharge any and all registrations filed under any applicable personal property registry or other registry against the Guarantor in favour of any or all Debentureholders in connection with this Agreement or any of the transactions contemplated therein, and the Debentureholder hereby consents to the Guarantor filing such discharges at such time and shall execute and deliver to the Guarantor any such deeds and other documents as the Guarantor may reasonably require in order to evidence the release and discharge of the Security Interest and the reassignment and reconveyance of any Collateral in the possession of any Debentureholder or being held by any Debentureholder, to the Guarantor without recourse.



23. **Number, Gender and Persons.** Unless the context otherwise requires, words importing the singular shall include the plural and *vice versa* and words importing persons shall include individuals, corporations, partnerships, associations, trusts, unincorporated organizations, governmental bodies and other legal or business entities.
24. **Severability.** If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall not invalidate or render unenforceable the remaining provisions hereof.
25. **Electronic Transmission.** Delivery of an executed copy of a signature page to this Agreement by fax or pdf shall be as effective as delivery of a manually executed copy of this Agreement.
26. **Governing Law.** This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.
27. **Entire Agreement.** This Agreement, the Guarantee and any other documents referred to herein constitute the entire agreement between the Guarantor and the Debentureholder relating to the subject-matter hereof and supersede all prior agreements and understandings, whether oral or written, with respect to the subject matter hereof.
28. **Further Assurances.** The Guarantor shall, at its own expense and from time to time, do or file, or cause to be done or filed, all such things and shall execute and deliver all such documents, agreements, opinions, certificates and instruments reasonably requested by the Debentureholder to establish in favour of the Debentureholder the Security Interest and carry out the intention of this Agreement.
29. **Paramountcy.** If there is any conflict or inconsistency between this Agreement and the Debenture, the provisions of the Debenture shall govern and prevail.
30. **Copy of Debenture.** The Guarantor hereby acknowledges and agrees that it has been provided with a copy of the Debenture.

*[Signature Page Follows.]*

**This Agreement** has been executed by the Guarantor on the date first stated above.

**Registered Office:**

**Mailing Office:**

**[GUARANTOR]**

By: \_\_\_\_\_  
Name:  
Title:

I have authority to bind the Corporation.

**Schedule "A"**

**Locations of Collateral**