

NOTE PURCHASE AGREEMENT

in respect of

10% SENIOR SECURED CONVERTIBLE NOTES

issued by

CARL DATA SOLUTIONS INC.

May 30, 2016

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NOTE PURCHASE AGREEMENT

THIS AGREEMENT is made as of the 30th day of May, 2016.

B E T W E E N:

CARL DATA SOLUTIONS INC.,
a corporation incorporated under the laws of the Province of
British Columbia,

(the "**Company**")

- and -

AIP ASSET MANAGEMENT INC.,
in its capacity as security agent for and on behalf of the
Holders,

(the "**Security Agent**"),

- and -

AIP GLOBAL MACRO CLASS,
in its capacity as a Holder,

("AGMC")

- and -

AIP GLOBAL MACRO FUND L.P.,
in its capacity as a Holder,

("AGMF")

- and -

AIP CANADIAN ENHANCED INCOME CLASS,
in its capacity as a Holder,

("ACEI")

- and -

AIP PRIVATE CAPITAL INC.,
in its capacity as a Holder,

("APC")

- and -

The other parties that become Holders from time to time,

(together with AGMC, AGMF, ACEI and APC and their respective successors and assigns, collectively, the "**Holders**").

WHEREAS subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to the Holders from time to time the Notes (as defined below);

AND WHEREAS the Holders desire to purchase the Notes on the terms and conditions set forth herein;

AND WHEREAS the Security Agent has agreed to act as security agent on behalf of the Holders with regard to certain matters associated with the Notes;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT, in consideration of the premises, the covenants herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the Company, the Security Agent and the Holders agree as follows:

ARTICLE 1 **INTERPRETATION**

1.1 **Definitions**

For the purposes of this Agreement:

"**Acquisition**" shall mean, with respect to any Person, any purchase or other acquisition, regardless of how accomplished or effected (including any such purchase or other acquisition effected by way of amalgamation, merger, arrangement, business combination or other form of corporate reorganization or by way of purchase, lease or other acquisition arrangements), of (a) any other Person (including any purchase or acquisition of such number of the issued and outstanding securities of, or such portion of an equity interest in, such other Person that such other Person becomes a Subsidiary of the purchaser or of any of its Affiliates) or of all or substantially all of the Property of any other Person, or (b) any division, business, operation or undertaking of any other Person or of all or substantially all of the Property of any division, business, operation or undertaking of any other Person.

"**Additional Closing Date**" means the date of issuance of Additional Notes as agreed to by the Company and the Security Agent for and on behalf of the Majority Holders.

"**Additional Notes**" any and all Notes issued by the Company under this Agreement on any Additional Closing Date.

"**Affiliate**" means, with respect to any Person, any other Person who directly or indirectly Controls, is Controlled by, or is under direct or indirect common Control with, such person, and includes any Person in like relation to an Affiliate. Notwithstanding the foregoing, the Holders and their Affiliates shall be deemed to not be Affiliates of the Company or the other Obligors for the purposes of the Loan Documents.

"**Applicable Law**" means, in respect of any Person, property, transaction, event or course of conduct, (i) all federal, provincial, or municipal laws, statutes, rules, by-laws and regulations, regulatory policies, (ii) all applicable official directives, orders, judgments and decrees of Governmental Authorities (whether or not having the force of law), (iii) applicable rulings and conditions of any licence, permit, certificate, registration, authorization, consent and approval issued by a Governmental Authority, and (iv) any requirements under or prescribed by applicable common law, in each case, binding or affecting the Person, property, transaction, event or course of conduct referred to in the context in which the term is used in each case whether or not having the force of law.

"**Bankruptcy Law**" means the *Bankruptcy and Insolvency Act* (Canada), the *Winding-Up Act* (Canada), the *Companies Creditor's Arrangement Act* (Canada), the U.S. Bankruptcy Code or any other Canadian federal or provincial, U.S. federal, state or local law or foreign law or corporate statute relating to bankruptcy, insolvency, winding up, liquidation, reorganization or relief of debtors;

"**Blocked Account Agreement**" means the Deposit Account Control Agreement executed by the Company in favour of the Security Agent, for and on behalf of the Holders, in respect of each of the Collateral Accounts.

"**Bonus Shares**" means 800,000 common shares of the Company as set forth in the Section 4.2.

"**Break Fee**" means the break fee in the amount of \$100,000 and set forth in Section 4.5.

"**Business**" means the business of the Company (together with its wholly owned subsidiaries, Extend to Social Media Inc. and FlowWorks Inc.) consisting of data collection, storage and analytic solutions for its clients and related activities.

"**Business Day**" means a day (other than Saturday or Sunday) on which banks are generally open for business in Toronto, Ontario and Vancouver, British Columbia.

"**Business Plan**" means (i) the business plan presented by the Company to the Holders prior to the Closing Date, and (ii) subsequent business plans approved by the board of directors of the Company and delivered to the Holders in accordance with Section 8.2(a)(iv).

"Cash Equivalents" means:

- (a) marketable obligations issued or unconditionally guaranteed by the Canadian or United States government, or any province or state thereof maturing within 12 months of the date of acquisition, in each case having a rating of "A-" (or the then equivalent grade) or better by a nationally recognized rating agency;
- (b) certificates of deposit, guaranteed investment certificates, term deposits and bankers' acceptances maturing within 12 months of the date of acquisition, and overnight bank deposits, in each case which are issued by a commercial bank organized under the laws of Canada or the United States or any province, state or district thereof having a senior unsecured rating of "A-" or better by S&P or Moody's;
- (c) repurchase obligations with a term of not more than 30 days for underlying investments of the types described in clauses (a) and (b) entered into with any bank meeting the qualifications specified in clause (b); and
- (d) shares of any money market fund that has substantially all of its assets invested continuously in the types of investments referred to above, has net assets of at least \$500,000,000 and has the highest rating obtainable from either Moody's or S&P.

"Change of Control" means the occurrence of any transaction or event as a result of which any Person (or group of Persons acting jointly or in concert) purchases or acquires legal or beneficial ownership, either directly or indirectly, of more than 50% (by voting power) of the outstanding Voting Securities of the Company.

"Closing Date" means, unless otherwise agreed by the Company and the Security Agent, the date that all of the closing conditions set out in Section 3.1 hereto have been satisfied or waived by the Security Agent.

"Closing Fee" has the meaning given to such term in Section 4.4.

"CSE" means the Canadian Stock Exchange.

"Collateral" means all Property of the Company and the other Obligors subject to the Security.

"Collateral Accounts" means the accounts set forth in Schedule 1.1(b) hereto.

"Commitment Fee" means the commitment fee in the amount of 375,000 shares and \$50,000 paid by the Company to the Security Agent for and on behalf of the Holders.

"Common Shares" means shares common stock in the capital of the Company.

"Contaminant" means any material, substance, contaminant, dangerous good, pollutant or waste that is regulated under any Environmental Law, including any petroleum product, flammable, explosive or radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, transformers or other equipment that contain dielectric fluid containing polychlorinated biophyls and anything that is deemed to be or defined as or included in the definition of "contaminant", "dangerous good", "deleterious substance", "dangerous good", "hazardous substances", "toxic substances", "hazardous materials", "subject waste", "hazardous wastes" or words of similar import under any Environmental Law or that does pose a hazard to health and/or safety of Persons or the environment, including any breakdown products or components of anything described herein.

"Control" means the possession, directly or indirectly of the power to direct or cause the direction of management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and **"Controlled"** has a corresponding meaning.

"Conversion Price" means the dollar amount for which each Common Share may be issued upon the conversion of this Note in accordance with the provisions of Article 6 hereof, which is equal to \$0.45.

"Date of Conversion" has the meaning given to such term in Section 6.2(b).

"Default" means any event or condition which, upon notice, lapse of time, or both, would constitute an Event of Default.

"Distribution" means:

- (a) the payment, directly or indirectly, by the Company of any dividends, or the making of any capital payments or redemptions, or any payment of any amount on account of any Indebtedness other than Permitted Indebtedness and Indebtedness under the Notes;
- (b) the payment of any bonuses, payments or distributions in respect of the profits of the Company, except for any bonuses, payments or distributions which do not, in the aggregate, exceed 10% of the net profits of the Company;
- (c) the payment of any management, consultant or similar fees or bonuses to any holder of Voting Securities of the Company or any officer, director or employee of the Company other than pursuant to any employment or consulting agreement entered into by the Company before the date of this Agreement which shall be disclosed and approved by the Security Agent if payments total exceed 10% of annual sales; or

- (d) the issuance by the Company of equity interests or options to acquire equity interests in the Company to any officer, director, employee or shareholder of the Company,

provided, however, that none of the following shall constitute a "Distribution" within the meaning of this Agreement: (i) any sale of Shares by the Company to pay for the development of any Intellectual Property of the Company as per approved Business Plan; (ii) compensatory bonuses, payments or distributions paid out of any bonus pool or comparable budget item contained in any approved Business Plan; and (iii) the issuance of any incentive equity interest in the Company pursuant to the provisions of the approved Business Plan.

"Environmental Law" means any and all Applicable Laws, in each case as now or thereafter applicable or in effect, relating to environmental or occupational health and safety matters, including the regulation or protection of human health, safety or the environment or Releases or threatened Releases of Contaminants into the indoor or outdoor environment, including air, soil, surface water, ground water, wetlands, land or subsurface strata, or otherwise relating to the generation, manufacturing, processing, distribution, use, treatment, storage, disposal, transport or handling of Contaminants.

"Event of Default" is defined in Section 9.1.

"Excluded Taxes" means, in relation to any Person, those Taxes on income or capital (or Taxes thereon) which are imposed or levied by any jurisdiction or any political subdivision of such jurisdiction as a result of such Person: (a) being organized under the laws of such jurisdiction or any political subdivision of such jurisdiction; (b) having its principal office or lending office in such jurisdiction; (c) being resident in such jurisdiction; (d) carrying on business in such jurisdiction; or (e) not dealing at arm's length (as defined for the purposes of any taxing statute in the applicable jurisdiction) with the Company.

"Fiscal Quarter" means a period of approximately three consecutive months in each Fiscal Year ending on June 30, September 30, December 31, and March 31, as the case may be, of such year.

"Fiscal Year" means, in respect of the Company and each Obligor, a fiscal year ending on June 30 of each year.

"Forced Conversion" means mandatory conversion of the Notes at the Conversion Price if the closing price of the common share is equal to \$0.75 or higher for at least 30 consecutive trading days with daily volume exceeding 400,000 shares.

"GAAP" means generally accepted accounting principles in the United States, including IFRS, as applicable, applied on a consistent basis.

"General Security Agreement" means the general security agreement executed by the Company in favour of the Security Agent, for and on behalf of the Holders,

providing for a first charge and security interest (subject only to Permitted Liens) on all the then present and future real property, personal property, fixed assets, equipment, accounts receivable, inventory, purchase orders; distribution, operating and marketing contracts; Intellectual Property and all other assets and undertaking of the Company, in form and substance satisfactory to the Majority Holders, as amended, supplemented, restated or replaced from time to time.

"Governmental Authority" means any government, parliament, legislature, regulatory authority, agency, department, commission, board, instrumentality or rule-making entity of any government, parliament or legislature, or any court, tribunal, arbitration board or arbitrator or (without limitation to the foregoing) other law, regulation or rule making entity (including, without limitation, a Minister of the Crown, any central bank, Superintendent of Financial Institutions or other comparable fiscal or monetary authority or agency or authority regulating banks) having or purporting to have jurisdiction in the relevant circumstances, or any Person acting or purporting to act under the authority of any of the foregoing (including, without limitation, any arbitrator).

"Guarantee" means each guarantee executed by a Guarantor in favour of the Security Agent, for and on behalf of the Holders, in form and substance satisfactory to the Majority Holders, guaranteeing all of the Obligations hereunder, as amended, supplemented, restated or replaced from time to time.

"Guarantee and Security Agreement" means each guarantee and security agreement executed by a Guarantor in favour of the Security Agent, for and on behalf of the Holders, in form and substance satisfactory to the Majority Holders, guaranteeing all of the Obligations hereunder, as amended, supplemented, restated or replaced from time to time and granting a first charge and security interest (subject only to Permitted Liens) on all the then present and future real property, personal property, fixed assets, equipment, accounts receivable, inventory; distribution, operating and marketing contracts; Intellectual Property and all other assets and undertaking of such Guarantor.

"Guarantors" means, collectively, any Person that guarantees the Indebtedness of the Company under the Notes from time to time.

"Hedging Agreement" means, for any Person, any arrangement or transaction between that Person and any other Person which is a rate swap transaction, basis swap, forward rate transaction, interest rate option, forward foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate-swap transaction, currency option or any other similar transaction (including any option with respect to any of such transactions or arrangements) designed to protect or mitigate against risks in interest or currency exchange fluctuations.

"Holders" means, collectively, the Persons listed on Schedule 1.1(a) hereto, as updated from time to time, who have an obligation (i) to purchase the Initial Notes

on the Closing Date and (ii) to purchase Additional Notes on any Additional Closing Date, and "**Holder**" means any one of them.

"**IFRS**" means International Financial Reporting Standards established by the International Accounting Standards Board, as amended from time to time.

"**Indebtedness**" means, with respect to any Person, without duplication:

- (a) an obligation of such Person for borrowed money;
- (b) an obligation of such Person evidenced by a bond, note, debenture or similar instrument;
- (c) an obligation arising in connection with an acceptance facility or letter of credit issued for the account of such Person;
- (d) an obligation of such Person in relation to purchase money agreements, deferred purchase price payments in respect of property or services, excluding trade payables and other accrued current liabilities incurred in the ordinary course of business in accordance with customary commercial terms;
- (e) all capitalized lease obligations of such Person;
- (f) an obligation of such Person or of any other Person secured by a Lien on any property or asset owned or held by such Person, to the extent attributable to that Person's respective interest in such Property, whether or not the obligations secured thereby shall have been assumed;
- (g) the net amount of all obligations of such Person (determined on a marked-to-market basis) under Hedging Agreements;
- (h) all guarantee, indemnity or financial support obligations of such Person determined in accordance with GAAP, if applicable; or
- (i) an obligation or liability of such Person owed to a factor where such Person has entered into a factoring arrangement with such factor in respect of its accounts.

"**Initial Forced Conversion**" is defined in Section 6.1(b).

"**Initial Notes**" means Notes in the principal amount of not less than \$500,000 issued by the Company to the Holders on the Closing Date under this Agreement.

"**Intellectual Property**" means all licenses, trademarks, patents, copyrights and agreements with respect to the usage of technology or other permits that are necessary for the operation of or used in connection with the Business as set forth in Schedule 1.1(c) hereto.

"Interest Payment Date" is defined in Section 4.1(b).

"Interest Rate" is defined in Section 4.1(b).

"Investment" in any Person means any direct or indirect (a) acquisition of any equity interest in such Person, or (b) any loan or advance made to such Person and, in determining the amount of any Investment involving a transfer of any Property other than cash, that Property will be valued at its fair value at the time of such transfer.

"Lien" means any mortgage, charge, pledge, hypothecation, assignment by way of security, deposit arrangement intended to secure the payment or performance of an obligation, lien (statutory or otherwise), preference, priority, security interest or other charge or encumbrance of any nature however arising, or any other agreement or arrangement creating in favour of any creditor a right in respect of any particular property, and includes the right of a lessor under a capitalized lease obligation, the right of a vendor under a conditional sale agreement and any easement, right of way or other encumbrance on real property.

"Liquidity Event" means any of the following:

- (a) completed private placement of not less than \$5,000,000; or
- (b) any merger, amalgamation, arrangement, privatization or company sale, reorganization or similar transaction resulting in a Change of Control of the Company

provided, however, that none of the following transactions shall constitute a "Liquidity Event" within the meaning of this Agreement: the sale of any Common Shares by the Company to pay for the development of the Intellectual Property of the Company as per the approved Business Plan.

"Liquidity Event Notice" is defined in Section 6.8.

"Loan Documents" means this Agreement, the Notes, the Security Documents, each Guarantee and Security Agreement, any other Guarantee and all other agreements, instruments and documents from time to time (both before and after the date of this Agreement) delivered in connection therewith.

"Majority Holders" means the Holder or Holders of greater than 85% of the outstanding Principal Amount.

"Material Adverse Effect" means any event or occurrence of whatever nature that has or could reasonably be expected to result in a material adverse effect on:

- (a) the business, property, condition (financial or otherwise) or prospects of the Company and its Subsidiaries, taken as a whole,

- (b) the ability of the Company or any other Obligor to pay or perform or comply with any of their material obligations under the Loan Documents;
- (c) the validity, perfection or priority of the Liens on the Collateral in favour of the Security Agent and the Holders or the value of the Collateral;
- (d) the validity or enforceability of any of the Loan Documents; or
- (e) the ability of the Security Agent or the Holders to enforce their rights and remedies under the Loan Documents or any related document, instrument or agreement.

"Maturity Date" means the second (2nd) anniversary of the Closing Date subject to semi-annual reviews and approvals by the Security Agent, provided that if the Security Agent determines as a result of any semi-annual review to accelerate the Maturity Date, then such accelerated Maturity Date cannot be earlier than the date that is six (6) months from the date of such semi-annual review or decision to accelerate the Maturity Date, whichever is later.

"Moody's" means Moody's Investors Service, Inc. or any successor thereto.

"Notes" means, collectively, the senior secured convertible notes issued by the Company to the Holders under this Agreement, including the Initial Notes and all Additional Notes, and **"Note"** means any one of them.

"Notice of Conversion" has the meaning given to such term in Section 6.2.

"Obligations" means, with respect to the Notes, all indebtedness, liabilities and other obligations owed to the Holders under this Agreement or under any other Loan Document, whether actual or contingent, direct or indirect, matured or not, now existing or hereafter arising.

"Obligors" means, collectively, the Company and each Guarantor and **"Obligor"** means any one of them.

"Offering Price" is defined in Section 6.8.

"Permitted Indebtedness" means,

- (a) Purchase Money Obligations in an aggregate principal amount not exceeding \$15,000 at any time;
- (b) the Obligations;
- (c) Indebtedness that is expressly subordinated by its terms to the Obligations, on terms satisfactory to the Security Agent, for and on behalf of the Majority Holders, acting reasonably;

- (d) intercompany Indebtedness between Obligors that is subordinated by its terms to the Obligations on terms and conditions satisfactory to the Security Agent for and on behalf of the Majority Holders, acting reasonably; and
- (e) other Indebtedness (the principal amount of which (when aggregated with the outstanding principal amount of any other Indebtedness incurred under this paragraph)) does not exceed \$15,000 (or its equivalent in another currency or currencies) not including current accounts payable.

"Permitted Liens" means, in respect of any property of the Obligors, any of the following:

- (a) Liens for taxes, assessments or government charges, including charges for workers' compensation and employment insurance, which are not due or delinquent, or if due or delinquent, the validity of which is being contested diligently and in good faith by appropriate proceedings;
- (b) Liens imposed or permitted by law such as carriers' liens, builders' liens, materialmens' liens and other liens, privileges or other charges of a similar nature, in respect of obligations not yet due or delinquent, or if due or delinquent, the validity of which is being contested diligently and in good faith by appropriate proceedings;
- (c) undetermined or inchoate Liens arising in the ordinary course of and incidental to construction or current operations which have not been filed pursuant to law and in respect of which no steps or proceedings to enforce such Liens have been initiated, and which relate to obligations which are not due or delinquent, or if due or delinquent, the validity of which is being contested diligently and in good faith by appropriate proceedings;
- (d) the Security;
- (e) Liens of judgments rendered or claims filed which are being contested in good faith by it by proper legal proceedings, provided that such proceedings effectively postpone enforcement of any such Lien and do not otherwise result in an Event of Default hereunder;
- (f) licences, easements, rights-of-way, servitudes, zoning, and similar rights in or restrictions in respect of land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other Persons, which do not, individually or in the aggregate detract from the value of, or impair the use of, the property subject thereto or any significant part thereof;
- (g) the reservations, limitations, provisos and conditions in any original grants from the Crown or any governmental authorities of any land or interests

therein and statutory exceptions, qualifications and reservations in respect of title;

- (h) defects in title which are not general in application and which do not, individually or in the aggregate, detract from the value of, or impair the use of, the property or any significant part thereof;
- (i) Liens securing Permitted Indebtedness under clause (a) of the definition thereof, provided such Liens extend only to the acquired asset which is the subject of such Purchase Money Obligation,
- (j) Liens securing Permitted Indebtedness under clause (d) of the definition thereof, provided such Liens are subordinated to the Security and have been pledged or granted as security to the Security Agent, for and on behalf of the Holders, in each case to the satisfaction of the Majority Holders;
- (k) Liens securing Permitted Indebtedness under clauses (c) or (e) of the definition thereof provided such Liens are subordinated to the Security, in each case to the satisfaction of the Majority Holders;
- (l) the right reserved to, or vested in, any Person under the terms of any lease, licence, franchise, grant or permit acquired by an Obligor, or under any statutory provision, to terminate any such any lease, licence, franchise, grant or permit, or to require annual or other payments as a condition to the continuation of such right; and
- (m) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases or statutory obligations.

"Person" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative or Governmental Authority.

"Principal Amount" means the aggregate principal amount of the Notes issued and outstanding under this Agreement from time to time.

"Property" means in respect of any Person, all or any portion of its undertaking, property, assets, both real and personal, including for greater certainty any securities in a corporation or ownership interest in any entity. "Property" shall include any real property which is legally or beneficially owned, and to the extent the Company or an Obligor has an interest in real property that is other than legal or beneficial ownership, "Property" shall only include such limited interest.

"Purchase Money Obligations" means any Indebtedness (including without limitation a capitalized lease obligation) incurred or assumed to finance all or any

part of the acquisition price (not exceeding the fair market value) of any asset acquired by any of the Company and its Subsidiaries.

"Regulatory Approval" means any consent, waiver, approval or other authorization issued by or of a Governmental Authority or CSE that is necessary in order to consummate the Transactions.

"Release" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration, including the movement of Contaminants in, on, over or through the environment.

"Relevant Jurisdictions" means, from time to time, with respect to each Obligor, the province, state or territory in Canada or relevant political subdivision in any other country: (i) where a filing or registration or new Lien document is required in order to protect, perfect or create the Liens on intangible and material tangible assets created by the Security or the interests of the Security Agent, for and on behalf of the Holders, hereunder; or (ii) such other jurisdiction reasonably determined by the Majority Holders as a jurisdiction in which a filing or registration or new Lien document is necessary or advisable to preserve, protect, perfect or create the Lien created by the Security or the interests of the Security Agent, for and on behalf of the Holders, hereunder.

"Rights Offering" means a distribution by the Company of a right to purchase a security of the Company to all, or substantially all, of the security holders of the Company.

"Royalties" means an amount equal to 3.5% of gross revenues received by the Borrower, calculated and payable monthly, up to a maximum of \$300,000 (the "Maximum Royalty").

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto.

"Securities Commissions" means, collectively, the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and each state thereof.

"Securities Laws" means, collectively, and, as the context may require, all applicable securities laws of each of the provinces and territories of Canada and the respective regulations made thereunder, together with all applicable policy statements, instruments, blanket orders and rulings of the Securities Commissions and all discretionary orders or rulings, if any, of the Securities Commissions made in connection with the Transactions together with applicable published policy statements of the Canadian Securities Administrators, as the context may require.

"Security" means the Liens created by the Security Documents.

"**Security Agent**" means AIP Asset Management Inc. (and its successors and assigns) in its capacity as security agent under the Security.

"**Security Agreements**" is defined in Section 5.1.

"**Security Documents**" means the Security Agreements, and any other documents, filings or instruments held by the Security Agent, for and on behalf of the Holders, securing or intended to secure repayment of the Obligations, including, without limitation, the security described in Section 5.1.

"**Senior Officer**" means, in respect of any Person, the individual holding from time to time the position of the president, a vice-president, a director, the chief executive officer, the chief financial officer or the secretary of that Person.

"**Solvent**" means, with respect to any Person on any date of determination, that on such date (a) the fair value of the property (for clarity, calculated to include goodwill and other intangibles) of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person; and (b) such Person is able to pay its debts and liabilities as they become due. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, can reasonably be expected to become an actual or matured liability;

"**Subsidiary**" means any Person directly or indirectly Controlled by another Person from time to time.

"**Super-Majority Holders**" means the holder or holders of greater than 95% of the outstanding Principal Amount.

"**Taxes**" includes all present and future income, corporation, capital gains, capital, mining, sales, harmonized sales, value-added and goods and services taxes and all stamp, franchise and other taxes and levies, imposts, deductions, duties, charges and withholdings whatsoever imposed by any Governmental Authority together with interest thereon and penalties with respect thereto, if any, and charges, fees and other amounts made on or in respect thereof.

"**Transactions**" means all agreements, undertakings, transactions and other dealings relating to or contemplated by the Loan Documents.

"**Voting Securities**" means any securities in the Company having power generally to vote in the election of directors of the Company.

1.2 Gender and Number

Words importing the singular include the plural and vice versa and words importing gender include all genders.

1.3 Interpretation Not Affected by Headings, etc.

The division of this Agreement into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section, paragraph or other portion hereof and include any agreement supplemental hereto.

1.4 Monetary References

Any reference in this Agreement to "Dollars", "dollars" or the sign "\$" is a reference to the lawful currency of Canada.

1.5 References

Except as otherwise specifically provided, references in this Agreement to any contract, agreement (including this Agreement), document or any other instrument shall be deemed to include references to the same as varied, amended, supplemented, restated or replaced from time to time and references in this Agreement to any enactment, including without limitation, any statute, law, by-law, regulation, ordinance or order, shall be deemed to include references to such enactment as re-enacted, amended, extended or replaced from time to time. References to any Person shall be deemed to include such Person's successors and assigns, or in the case of the Obligors, such Person's permitted successors and assigns.

1.6 Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

1.7 This Agreement to Govern

If there is any inconsistency between the terms of this Agreement and the terms of any Security Document, the provisions of this Agreement will prevail to the extent of the inconsistency.

1.8 Actions on Days Other Than Business Days

Except as otherwise specifically provided herein, where any payment is required to be made or any other action is required to be taken on a particular day and such day is not a Business Day and, as a result, such payment cannot be made or action cannot be taken on such day, then this Agreement shall be deemed to provide that such payment shall be made or such action shall be taken on the first Business Day after such day.

1.9 Interest Act

For the purposes of the *Interest Act* (Canada) and disclosure under such Act, whenever interest to be paid under this Agreement or any Loan Document is to be calculated on the basis of a year of 365 days or 360 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by either 365, 360 or such other period of time, as the case may be.

1.10 Meaning of 'outstanding' for certain purposes

Each Note will be deemed to be outstanding from the time it is issued until it is cancelled or delivered to the Company for cancellation, provided that, for the purpose of any provision of this Agreement referencing or entitling the Holder thereof to vote, sign consents, requests or other instruments or take any other action, Notes owned by the Company will be disregarded. Notes that have been partially redeemed, prepaid or repaid, will be deemed to be outstanding only to the extent of the unredeemed or unconverted part of the principal amount thereof.

1.11 Permitted Liens

The ability of the Obligors to incur or suffer to exist Permitted Liens is not, and shall not be construed as, a subordination, constructive or otherwise, of the Security to any such Permitted Lien.

ARTICLE 2 AUTHORIZATION, PURCHASE AND SALE OF NOTES

2.1 Authorization of Notes

The Company has authorized the issue and sale of Notes in an aggregate principal amount of up to \$2,000,000. The Notes shall be substantially in the form set out in Exhibit 1 unless otherwise agreed to by the Company and the Majority Holders.

2.2 Sale and Purchase of Notes; Issuance of Notes

(a) Subject to the terms and conditions set forth in this Agreement, including, without limitation, the conditions set out in Section 3.1, on the Closing Date, the Company shall issue and sell to the Holders and the Holders shall purchase from the Company a Note in the aggregate principal amount of not less than \$500,000 (the "**Initial Notes**") for an aggregate purchase price equal to 100% of the principal amount of the Initial Notes, less any deductions permitted in accordance with Article 4. On the Closing Date, the Company shall deliver to the Holders the Initial Notes in the form of a single Note (or such greater number of Notes in denominations of at least \$5,000, and increments of \$5,000 in excess thereof, as a Holder may request) dated the Closing Date and registered in such Holders' names (or in the names of their respective nominees designated in writing), against delivery by such Holders to the Company of immediately available funds in the amount of the

purchase price therefor as set out in this Section 2.2(a) by certified cheque, bank draft or wire transfer of immediately available funds for the account of the Company, in each case, to be deposited in an account that is a Collateral Account..

(b) Subject to the terms and conditions set forth in this Agreement, including, without limitation, the conditions set out in Section 0, on any Additional Closing Date, the Company shall issue and sell to the Holders and the Holders shall purchase from the Company Additional Notes for an aggregate purchase price equal to 100% of the principal amount of such Additional Notes, less any deductions permitted in accordance with Article 4. On any Additional Closing Date, the Company shall deliver to the Holders an Additional Note to be purchased by such Holders in the form of a single Note (or such greater number of Notes in denominations of at least \$5,000, and increments of \$5,000 in excess thereof, as such Holders may request), as applicable, dated the applicable date of issuance and registered in such Holders' names (or in the names of their respective nominees designated in writing), against delivery by such Holders to the Company of immediately available funds in the amount of the purchase price therefor as set out in this Section 2.2(b) by certified cheque, bank draft or wire transfer of immediately available funds for the account of the Company, in each case, to be deposited in an account that is a Collateral Account.

(c) If on the Closing Date or the Additional Closing Date, as applicable, the Company fails to tender a Note to the applicable Holder as provided herein, or any of the conditions specified in Section 3.1 or Section 0, as applicable, or agreed between the Company and the Majority Holders have not been fulfilled to the Majority Holders' satisfaction, such Holder may, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Holder may have by reason of such failure or nonfulfillment.

2.3 Pari-Passu Ranking

All Notes issued hereunder will rank *pari-passu* with all other Notes issued under this Agreement. No amendments may be made to any Note without the same amendments being made to the other Notes. Any and all payments of principal and interest made to any holder of the Notes shall be made rateably to all Holders. Any security granted to secure the obligations of the Company to any Holder shall be granted in favour of the Security Agent, for and on behalf the Holders.

2.4 Legend

Each certificate representing the Notes shall bear the following legends:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THESE SECURITIES WILL NOT TRADE THE SECURITIES BEFORE [four months and one day from the Closing Date].

ARTICLE 3
CONDITIONS TO CLOSING OF NOTES

3.1 Conditions to Closing of Initial Notes

The obligations of the Holders to purchase and pay for the Initial Notes to be sold to the Holders pursuant to Article 2 are subject to the fulfillment to the Holders' satisfaction of the following conditions on or prior to the Closing Date (which conditions are for the sole and exclusive benefit of the Holders and may be waived in writing by the Holders in their sole discretion):

- (a) each of the Loan Documents shall have been executed and delivered by all parties thereto, in form and substance satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders), including for greater certainty, the Initial Notes and Bonus Shares;
- (b) the representations and warranties of the Obligors in this Agreement and the other Loan Documents shall be true and correct;
- (c) no Default or Event of Default shall have occurred and be continuing nor would any Default or Event of Default occur after giving effect to this Agreement or the issuance of the Initial Notes;
- (d) no event shall have occurred which, individually or in the aggregate has had, or could reasonably be expected to have, a Material Adverse Effect;
- (e) each of the Obligors shall have obtained all Regulatory Approvals and any other approvals, waivers, consents and authorizations required on the Closing Date to permit the Transactions to proceed in compliance with Applicable Law;
- (f) the filings and registrations shall have been made to perfect the Security in the Province of British Columbia and the state of Washington and in all other jurisdictions reasonably required by the Security Agent, and the Security shall constitute, subject only to Permitted Liens, a first ranking charge over the Property of the Company (except as otherwise agreed by the Security Agent (in its discretion except if instructed by the Majority Holders) and except for Property as to which the Security Agent (in its discretion except if instructed by the Majority Holders) shall have determined in its reasonable discretion that the costs of obtaining or perfecting such Security is excessive in relation to the value of the Security to be offered thereby);
- (g) the Security Agent, for and on behalf of the Holders, shall have received the following, in form and substance reasonably satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders):

- (i) a certificate of a Senior Officer of the Company certifying as to compliance with Section 3.1(b), 3.1(c), 3.1(e) and 3.1(f) and that attached thereto are true and correct copies of the following documents, and that such documents are in full force and effect, unamended:
 - (A) the certificate of incorporation, articles of incorporation, and all other organizational documents of the Company;
 - (B) a certificate of incumbency including true specimen signatures of officers or directors of the Company who have executed this Agreement and/or any of the Loan Documents; and
 - (C) resolutions of its board of directors evidencing that all necessary action (if any), corporate or otherwise, has been taken by the Company to authorize the execution, delivery and performance of the Loan Documents to which it is a party; and
- (ii) a certificate of good standing with respect to the Company issued by appropriate government officials of its jurisdiction of organization and any other jurisdiction in which the Company conducts business;
- (h) the Holders and the Security Agent, shall have received customary opinions of counsel to the Obligors acceptable to the Security Agent (in its discretion except if instructed by the Majority Holders), including opinions with respect to the enforceability of the Loan Documents, compliance with applicable Securities Laws, no Regulatory Approvals being required in connection with the Transactions other than those that have been obtained, and the registration of the Security;
- (i) the Company shall establish and maintain at its expense blocked accounts as the Security Agent (in its discretion except if instructed by the Majority Holders) may specify, with such banks as are acceptable to the Security Agent (in its discretion except if instructed by the Majority Holders);
- (j) the Security Agent (who shall promptly provide to each Holder) shall have received and (in its discretion except if instructed by the Majority Holders) be satisfied with (i) a detailed schedule of sources and uses of the proceeds from the Notes, (ii) independent, third-party reports, expert opinions and valuations of the business and assets of the Company; (iii) cash management, collateral, inter-creditor agreements, hedging policies, and financial control systems and reporting capability of the Company; (iv) compliance by the Company, in all respects deemed material by the Holders, with applicable product approvals, licenses, environmental, health and safety, pension plan, labour statutes, and other government regulations in each province, state or jurisdiction in which the

Company carries on business; (v) a certificate showing a sufficient amount of Collateral and availability for the Initial Notes to be issued on the Closing Date and closing balance sheet; (vi) Regulatory Approvals; (vii) evidence (as set forth in Schedule 3.1(j) hereto) of conversion of all Indebtedness of insiders, directors and officers, and Affiliated and related parties (set forth in Schedule 1.1(e) hereto) into Common Shares; and (viii) background checks on key principals, directors and officers of the Company;

- (k) all fees and expenses contemplated by Section 4.11 shall have been paid in full by the Company or shall be paid out of the purchase price for the Initial Notes on the Closing Date; and
- (l) such other conditions as may be required by the Security Agent (in its discretion except if instructed by the Majority Holders).

3.2 Conditions to Closing of Additional Notes

The obligations of any Holders to purchase and pay for Additional Notes to be sold to the Holders pursuant to Article 2 are subject to the fulfillment to the Holders' satisfaction of the following conditions on or prior to the applicable Additional Closing Date (which conditions are for the sole and exclusive benefit of the Holders and may be waived in writing by the Holders in their sole discretion):

- (a) each Additional Note shall have been executed and delivered by the Company, in form and substance satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders) and, to the extent not previously delivered, each of the other Loan Documents shall have been executed and delivered by all parties thereto, in form and substance satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders);
- (b) the representations and warranties of the Company and the other Obligor in this Agreement and the other Loan Documents shall be true and correct;
- (c) no Default or Event of Default shall have occurred and be continuing nor would any Default or Event of Default occur after giving effect to the issuance of the Additional Notes;
- (d) no event shall have occurred which, individually or in the aggregate has had, or could reasonably be expected to have, a Material Adverse Effect;
- (e) each of the Obligors shall have obtained all Regulatory Approvals and any other approvals, waivers, consents and authorizations required on the Closing Date to permit the Transactions to proceed in compliance with Applicable Law shall have been obtained and evidence thereof shall have been provided to the Holders;
- (f) the filings and registrations made on the Closing Date to perfect the Security shall continue to be in effect in all jurisdictions reasonably required by the Security Agent (in its discretion except if instructed by the Majority Holders), and the

Security shall constitute, subject only to Permitted Liens, a first ranking charge over the Property of the Company and the other Obligor (except as otherwise agreed by the Security Agent (in its discretion except if instructed by the Majority Holders) and except for Property as to which the Security Agent (in its discretion except if instructed by the Majority Holders) shall have determined in its reasonable discretion that the costs of obtaining or perfecting such Security is excessive in relation to the value of the Security to be offered thereby);

- (g) the Security Agent, for and on behalf of the Holders, shall have received the following, in form and substance reasonably satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders):
 - (i) a certificate of a Senior Officer of the Company and each other Obligor (other than Obligors that are individuals) certifying as to compliance with Section 3.2(b), 3.2(c), 3.2(d), 3.2(e) and 3.2(e) and confirming that there has been no changes to the Company's constating documents or certificate of incumbency delivered in connection with the issuance of the Initial Notes and that attached thereto are true and correct copies of the resolutions of its board of directors evidencing that all necessary action (if any), corporate or otherwise, has been taken by the Company to authorize the execution, delivery and performance of the Additional Notes, and that such resolutions are in full force and effect; and
 - (ii) a certificate of good standing (or equivalent) with respect to the Company and each other Obligor (other than Obligors that are individuals) issued by appropriate government officials of its jurisdiction of organization and any other jurisdiction in which the Company or such Obligor conducts business;
- (h) to the extent not previously provided, the Security Agent (who shall promptly provide to each Holder) shall have received and (in its discretion except if instructed by the Majority Holders) be satisfied with (i) a detailed schedule of sources and uses of the proceeds from the Notes, (ii) independent, third-party reports, expert opinions and valuations of the business and assets of the Company; (iii) cash management, collateral, inter-creditor agreements, hedging policies, and financial control systems and reporting capability of the Company; (iv) compliance by the Company, in all respects deemed material by the Holders, with applicable product approvals, licenses, environmental, health and safety, pension plan, labour statutes, and other government regulations in each province, state or jurisdiction in which the Company carries on business; (v) a certificate showing sufficient amount of Collateral and availability for Notes, including the Additional Notes to be issued on the Additional Closing Date, and closing balance sheet; and (vi) Regulatory Approvals;
- (i) to the extent not previously paid, all fees and expenses contemplated by Section 4.11 shall have been paid in full by the Company or shall be paid out of the purchase price for the Additional Notes on the Additional Closing Date; and

- (j) prior to the issuance of any Additional Notes, the Company (i) shall complete a review by Collins Barrow auditors to show additional collateral and established and maintained at its expense blocked accounts as the Security Agent (in its discretion except if instructed by the Majority Holders) may specify, with such banks as are acceptable to the Security Agent (in its discretion except if instructed by the Majority Holders); and (ii) shall have delivered to the Security Agent all of the agreements and other documents referred to in Section 8.1(n).

ARTICLE 4 **PAYMENTS**

4.1 Calculation and Payment of Interest

(a) Interest shall accrue on the Principal Amount of each Note from and including the date of issuance until repayment in full. The interest shall accrue from day to day at the applicable Interest Rate, both before and after default, demand, maturity and judgment, and shall be calculated on the basis of the actual number of days elapsed and on the basis of a year of 365 or 366 days, as applicable.

(b) The Notes shall bear interest at rate per annum equal to 10% plus, if an Event of Default has occurred, 12% per annum, while such Event of Default continues (the "**Interest Rate**"). Interest shall be calculated and payable monthly, in advance on the first day of each month (each, an "**Interest Payment Date**") until the entire Principal Amount of each Note has been repaid in full.

4.2 Commitment Fee and Bonus Shares

The Security Agent acknowledges the receipt for and on behalf of the Holders of the Initial Notes (pro rata in accordance with the principal amounts of Initial Notes purchased by each) of the Commitment Fee, being \$50,000 and 375,000 shares, paid by the Company, which is fully earned and non-refundable. The Company shall issue 800,000 Bonus Shares to the Security Agent for and on behalf of the Holders. 400,000 Bonus Shares shall be issued on the Closing Date, on which it is fully earned and non-refundable and 400,000 Bonus Shares issued on the Date of Conversion, which it is fully earned and non-refundable.

4.3 Royalties

The Company shall pay to the Security Agent for and on behalf of the Holders Royalties which shall be due and payable within 5 days after the end of each month until the Maximum Royalty is paid.

4.4 Closing Fee

The Company shall pay to the Security Agent a closing fee of \$100,000 (the "**Closing Fee**") which shall be due on the Closing Date and payable in equal instalments of \$50,000 on each of the Closing Date and on or before the date of issuance of the Additional Notes.

4.5 Break Fee

If the Company refuses to issue Notes to the applicable Holder in accordance with the terms set forth in this Agreement in circumstances where the Holders are willing to purchase such Notes, the Company shall pay to Security Agent the Break Fee. The Break Fee shall not be payable if the Company's refusal to issue Notes is due to a change in Applicable Law or Securities Law or a new Regulatory Approval after the date of execution of this Agreement which would render the issuance of Notes by the Company to a Holder illegal or invalid or cause the Company to incur a penalty, as long as the Company has provided the Security Agent with equal economic benefit substitution to comply with such new laws or regulations.

4.6 Mandatory Repayment

The Principal Amount and all other accrued and unpaid interest and other amounts payable under this Agreement, shall be due and payable by the Company in full on the Maturity Date, or such earlier date upon acceleration after the occurrence of an Event of Default.

4.7 Prepayment Option

From and after the first anniversary of the Closing Date, the Company may, at its option, prepay without notice or penalty the Principal Amount of all of the Notes then outstanding in full or in part together with all accrued and unpaid interest thereon to the date of the prepayment.

4.8 Payments Generally

All payments made pursuant to this Agreement (in respect of principal, interest or otherwise) shall be made by the Company to the Holders no later than 4:00 p.m. (Toronto time) on the due date thereof by way of wire transfer of immediately available funds by or on behalf of the Company to the account specified therefor by each Holder. Any payments received by any Holder after such time shall be considered for all purposes as having been made on the next following Business Day unless the applicable Holder otherwise agrees in writing.

4.9 Payments - No Deduction

(a) All payments made in respect of this Agreement (in respect of principal, interest or otherwise) shall, except as required by Applicable Law, be made in full without set-off or counterclaim, and free of and without deduction or withholding for any present or future Taxes, other than Excluded Taxes, provided that if the Company is required by Applicable Law to deduct or withhold any Taxes, other than Excluded Taxes, from or in respect of any payment or sum payable to any Holder, the payment or sum payable will be increased as necessary so that after making all such deductions or withholdings, such Holder receives an amount equal to the sum it would have received if no such deduction or withholding had been made and the Company shall pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law.

(b) If any Holder becomes liable for any such Tax in the jurisdiction in which the Company is located solely as a result of a payment being made without such Tax in that jurisdiction having been deducted or withheld, the Company shall indemnify such Holder for such Tax and

any interest and penalties thereon, and the indemnity payment will be increased as necessary so that after the imposition of such Tax in that jurisdiction on the indemnity payment (including such Tax in respect of any such increase in the indemnity payment), such Holder receives the full amount of such Taxes for which it is liable in that jurisdiction.

(c) Notwithstanding the foregoing, the Company shall not be required to pay additional amounts in respect of: (i) Excluded Taxes; or (ii) amounts paid or credited to a "non-resident" for the purposes of the *Income Tax Act* (Canada).

4.10 Illegality

If any Applicable Law coming into force after the Closing Date, or if any change in any existing Applicable Law or in the interpretation or application thereof by any court or Governmental Authority, now or hereafter makes it unlawful for any Holder to have subscribed for or hold the Notes or to give effect to its obligations in respect thereof, such Holder may, by written notice thereof to the Company, declare its obligations under this Agreement to be terminated, and the Company shall prepay, within the time required by such law, the Principal Amount together with accrued interest thereon and any other amounts owing under this Agreement as may be applicable to the date of such payment. If any such event will, in the opinion of such Holder, affect only part of this Agreement, the remainder will be unaffected and the obligations of the Company under the Loan Documents will continue.

4.11 Payment of Costs and Expenses

The Company shall pay to the Security Agent and the Holders, on demand, all reasonable costs and expenses of each of the Security Agent and the Holders and each one's agents and any receiver or receiver-manager appointed by the Security Agent or by a court (including, without limitation, all reasonable fees, out-of-pocket expenses and disbursements of legal counsel) in connection with this Agreement and the other Loan Documents, including, without limitation:

- (a) costs and expenses incurred in connection the preparation of this Agreement or any of the other Loan Documents;
- (b) costs and expenses incurred obtaining advice as to the Holders' and/or the Security Agent's rights and responsibilities under this Agreement or the other Loan Documents, and the preparation of any documentation in relation to the issuance of any Additional Notes; and
- (c) costs and expenses incurred in connection with the defence, establishment, protection or enforcement of any of the rights or remedies of the Holders and/or the Security Agent under this Agreement or any of the other Loan Documents including, without limitation, all costs and expenses of establishing the validity and enforceability of, or of collection of amounts owing under, any of the Security Documents or any enforcement of the Security including, without limitation, reasonable fees, expenses and disbursement of legal counsel to the Security Agent incurred in connection therewith.

4.12 Indemnities

The Company shall indemnify and save harmless the Security Agent and the Holders from all claims, demands, liabilities, damages, losses, costs, charges and expenses (including the reasonable fees, out-of-pocket expenses and disbursements of legal counsel to the Security Agent or the Holders), which may be incurred by the Security Agent or the Holders as a consequence of or in respect of: (a) default by the Company in the payment when due of any Obligation or any other Default or Event of Default hereunder; (b) the application by the Company or any other Obligor of the proceeds of the Notes; (c) the untruthfulness or incorrectness of any representation or warranty of the Company or any other Obligor contained in this Agreement, in any Loan Document or in any other agreement, certificate, instrument or other document delivered pursuant to this Agreement or any Loan Document; and (d) any breach or non-performance by the Company of any covenant to be performed by it contained in this Agreement, in any Loan Document or in any other agreement, certificate, instrument or other document delivered pursuant to this Agreement or any Loan Document. A certificate of an officer of any Security Agent or any Holder as to any such claim, demand, liability, damage, loss, cost, charge or expense and containing reasonable details of the calculation shall be, absent manifest error, *prima facie* evidence of the amount of such claim, demand, liability, damage, loss, cost, charge or expense. Notwithstanding the foregoing provisions of this Section 4.12, the Company shall not be obligated to indemnify any Person under this Section 4.12 for any claim, demand, liability, damage, loss, cost, charge or expense to the extent that such claim, demand, liability, damage, loss, cost, charge or expense results from the negligence, fraud or wilful misconduct of such Person or the default by such Person in the performance of its obligations under this Agreement.

4.13 Maximum Rate of Interest

Notwithstanding anything herein or in any of the other Loan Documents to the contrary, in the event that any provision of this Agreement or any other Loan Documents would oblige the Company to make any payment of interest or other amount payable to the Holders in an amount or calculated at a rate which would be prohibited by law or would result in a receipt by the Holders of interest at a criminal or prohibited rate (as such terms are construed under the *Criminal Code* (Canada) or any other Applicable Law), then notwithstanding such provision, such amount or rate shall be deemed to have been adjusted with the same effect as if adjusted at the Closing Date to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by law or so result in a receipt by the Holders of interest at a criminal or prohibited rate, such adjustment to be effected to the extent necessary in each case, as follows (a) by reducing any fees and other amounts which would constitute interest for the purposes of Section 347 of the *Criminal Code* (Canada) or any other Applicable Law; and (b) by reducing the Interest Rate.

ARTICLE 5 **SECURITY**

5.1 Security

As security for the due and punctual payment of all of the Obligations, the Company shall, and shall cause each other Obligor, to contemporaneously with the execution of this Agreement, deliver or cause to be delivered to the Security Agent, for and behalf of the Holders,

in form and substance satisfactory the Majority Holders and their counsel (collectively, the "Security Agreements"):

- (a) the General Security Agreement;
- (b) the Blocked Account Agreement;
- (c) a Guarantee or Guarantee and Security Agreement from Extend to Social Media Inc.;
- (d) a Guarantee or Guarantee and Security Agreement from FlowWorks Inc.;
- (e) a limited personal guarantee executed by Greg Johnston in the amount of \$130,000 in favour of the Security Agent, for and on behalf of the Holders, in form and substance satisfactory to the Majority Holders, as amended, supplemented, restated or replaced from time to time;
- (f) a limited personal guarantee executed by Kevin Ma in the amount of \$60,000 in favour of the Security Agent, for and on behalf of the Holders, in form and substance satisfactory to the Majority Holders, as amended, supplemented, restated or replaced from time to time; and
- (g) all other documentation, consents and authorizations necessary in order to make valid and effective the aforementioned agreements.

5.2 Further Assurances - Security

The Company shall take or cause to be taken such action and execute and deliver or cause to be executed and delivered to the Security Agent, for and on behalf of the Holders, such agreements, documents and instruments as the Majority Holders may request, and register, file or record the same (or a notice or financing statement in respect thereof) in all offices where such registration, filing or recording is, in the opinion of the Majority Holders or their counsel, necessary or advisable to constitute, perfect and maintain the Security in all jurisdictions reasonably required by the Majority Holders, in each case within a reasonable time after the request therefor, and in each case in form and substance satisfactory to the Majority Holders and their counsel. For greater certainty, to the extent that the Majority Holders consent to an amalgamation, consolidation, merger, winding-up or dissolution of an Obligor, the Obligor taking such action shall execute and deliver such agreements and other documents which the Majority Holders may reasonably require to ensure the continued validity, enforceability and effectiveness of the Security.

5.3 Security Effective Notwithstanding Date of Advance

The Security will be effective and the obligations under this Agreement and the other Loan Documents with respect thereto will be continuing, whether the monies hereby or thereby secured or any part thereof is advanced before or after or at the same time as the creation of any such Security or before or after or upon the date of execution of this Agreement. The Security will not be affected by any payments in respect of the Notes or any of the other Loan

Documents, but will constitute continuing security to and in favour of the Security Agent, for and on behalf of the Holders, for the Obligations from time to time.

5.4 No Merger

The Security shall not merge in any other security. No judgment obtained by or on behalf of the Holders shall in any way affect any of the provisions of this Agreement, the other Loan Documents or the Security. For greater certainty, no judgment obtained by or on behalf of the Holders shall in any way affect the obligation of the Company to pay principal, interest or other amounts at the rates, times and in the manner provided in this Agreement.

5.5 Release of Security

Following due payment and performance in full of all Obligations of the Company and the other Obligors under this Agreement and the other Loan Documents, the Security Agent shall, at the request, cost and expense of the Company, release and discharge its rights and interests in the Property subject to the Security. In addition, if any Property of the Company or the other Obligors is disposed of as permitted by this Agreement and/or the Loan Documents, or is otherwise released from the Security at the direction or with the consent of the Majority Holders, at the request and expense of the Company (on satisfaction, or on being assured of concurrent satisfaction, of any condition to or obligation imposed with respect to such disposition), the Security Agent shall discharge such Property from the Security at the Company's request in writing and at the cost and expense of the Company, and deliver and reassign to the Company any of such Property then in the possession of the Security Agent.

**ARTICLE 6
CONVERSION OF NOTES**

6.1 Conversion Right and Forced Conversion

- (a) At any time after issuance, each Holder has a right to convert the Principal Amount of the Notes issued hereunder into Common Shares at the applicable Conversion Price.
- (b) At any time after the date which is four (4) months of the date of the issuance of the Notes and upon the Forced Conversion Condition being satisfied, the Company will have the right at any time thereafter to require the Holder to convert one-half of the Principal Amount of the Notes issued hereunder into Common Shares at the applicable Conversion Price (the "Initial Forced Conversion").
- (c) Upon the Holder disposing of substantially all of the Common Shares issued in connection with the Initial Forced Conversion, the Company will have the right at any time thereafter to require the Holder to convert the balance of the Principal Amount of the Notes issued hereunder into Common Shares at the applicable Conversion Price.
- (d) Such right or obligation of conversion shall extend only to the maximum number of whole Common Shares into which the aggregate Principal Amount of the Notes

surrendered for conversion at any one time by the Holder thereof may be converted. Fractional interests in Common Shares shall be adjusted for in the manner provided in the in Section 6.3.

6.2 Manner of Exercise of Right to Convert

- (a) The Holder of a Note desiring or obligated to convert such Note in whole or in part into Common Shares shall surrender such Note to the Company at its principal office together with the conversion notice in the form attached hereto as Exhibit 2 or any other written notice in a form satisfactory to the Company (the “**Notice of Conversion**”), in either case duly executed by the Holder or his executors or administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Company, exercising the Holders’ right to convert such Note in accordance with the provisions of this Article. Thereupon such Holder or, subject to payment of all applicable stamp or security transfer taxes or other governmental charges and compliance with all reasonable requirements of the Company, the Holders’ nominee(s) or assignee(s) shall be entitled to be entered in the books of the Company as at the Business Day immediately after the Date of Conversion (or such later date as is specified in Section 6.2(b)) as the Holder of the number of Common Shares into which such Note is convertible in accordance with the provisions of this Article and, as soon as practicable thereafter. The Company shall deliver or cause to be delivered to such Holder or, subject as aforesaid, his nominee(s) or assignee(s) a certificate or certificates for such Common Shares and make or cause to be made any payment of interest to which such Holder is entitled in accordance with Section 6.2(d) hereof.
- (b) For the purposes of this Article, a Note shall be deemed to be surrendered for conversion on the date (the “**Date of Conversion**”) on which it is so surrendered in accordance with the provisions of this Article and, in the case of a Note so surrendered by post or other means of transmission, on the date on which it is received by the Company at its office; provided that if a Note is surrendered for conversion on a day on which the register of Common Shares is closed or on a day which immediately precedes a day on which the register of Common Shares is closed, the Person or Persons entitled to receive Common Shares shall become the Holder or Holders of record of such Common Shares as at the date on which such register is next reopened.
- (c) Upon a Holder of any Note exercising the right of conversion in respect of only a part of the Note and surrendering such Note to the Company, in accordance with Section 6.5 the Company shall cancel the same and shall without charge forthwith certify and deliver to the Holder a new Note or Notes in an aggregate principal amount equal to the unconverted part of the principal amount of the Note so surrendered.

- (d) The Holder of a Note surrendered for conversion in accordance with this Section 6.2 shall be entitled to receive accrued and unpaid interest in respect thereof up to the Date of Conversion of such Notes.

6.3 No Requirement to Issue Fractional Common Shares

The Company shall not be required to issue fractional Common Shares upon the conversion of Notes pursuant to this Article. If more than one Note shall be surrendered for conversion at one time by the same Holder, the number of whole Common Shares issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of such Notes to be converted. If any fractional interest in a Common Share would, except for the provisions of this Section, be deliverable upon the conversion of any Principal, the Company shall, in lieu of delivering any certificate representing such fractional interest, make a cash payment to the Holder of such Note of an amount equal to the fractional interest which would have been issuable multiplied by the Conversion Price of the Common Shares on the Date of Conversion.

6.4 Company to Reserve Common Shares

The Company covenants that it will at all times reserve and keep available out of its authorized Common Shares, solely for the purpose of issue upon conversion of Notes as in this Article provided, such number of Common Shares as shall then be issuable upon the conversion of all outstanding Notes. The Company covenants that all Common Shares which shall be so issuable shall, when issued, be duly and validly issued as fully-paid and non-assessable.

6.5 Cancellation of Converted Notes

Subject to the provisions of Section 6.2 as to Notes converted in part, all Notes converted in whole or in part under the provisions of this Article shall be forthwith delivered to and cancelled by the Company and no Note shall be issued in substitution therefor.

6.6 Hold Period on Common Shares

If applicable, each certificate representing the security shall bear the following legends:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THESE SECURITIES WILL NOT TRADE THE SECURITIES BEFORE [four months and one day from the Closing Date.]

If the security is entered into a direct registration or other electronic book-entry system, or if the Holder does not directly receive a certificate representing the security, the Holder shall receive a written notice containing the legend restriction notation set out in this Section 6.6.

Notwithstanding the above, the restricted period applicable to trades in underlying securities is calculated from the Closing Date. If the applicable restricted period expires prior to the conversion or exchange, an issuer is not required to place a legend on the certificate representing the underlying securities or a legend restriction notation in any required written notice.

6.7 Adjustment of the Conversion Price

6.7.1

The Conversion Price in effect at any date will be subject to adjustment from time to time in the events and in the manner provided in this Section 0.

6.7.2

If and whenever at any time after the date hereof and prior to the conversion of the entire principal amount of this Note available for conversion to Common Shares, the Company:

(a) subdivides, redivides or changes its outstanding Common Shares into a greater number of Common Shares; or

(b) reduces, combines or consolidates its outstanding Common Shares into a smaller number of Common Shares; or

(c) issues Common Shares or securities convertible into or exchangeable for Common Shares to the holders of all or substantially all of the outstanding Common Shares as a stock dividend or otherwise; or

(d) makes a distribution on its outstanding Common Shares to the holders of all or substantially all of the outstanding Common Shares payable in Common Shares or securities convertible into or exchangeable for Common Shares;

(any of such events in (a), (b), (c) and (d) above being called a “**Common Share Reorganization**”) then the Conversion Price will be adjusted on the effective date of a Common Share Reorganization, so that the Conversion Price shall equal the price determined by multiplying the Conversion Price immediately prior to such effective date by a fraction, the numerator of which will be the total number of Common Shares outstanding on such effective date before giving effect to such Common Share Reorganization and the denominator of which will be the total number of Common Shares outstanding immediately after giving effect to such Common Share Reorganization (including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had all such securities been exchanged for or converted into Common Shares on such effective date).

6.7.3

If and whenever at any time after the date hereof and prior to the principal amount of this Note to Common Shares, the Company fixes a record date for the issue or the distribution to the holders of all or substantially all of the outstanding Common Shares of (i) securities of the Company, including rights, options or warrants to acquire securities of the Company or any of its property or assets; or (ii) any property or other assets, including cash and evidences of indebtedness, and if such issuance or distribution does not constitute a Common Share Reorganization or a Rights Offering (any of such non-excluded events

being called a “**Special Distribution**”), then the Conversion Price will be adjusted effective immediately after the date of such issuance or distribution so that it shall equal the price determined by multiplying the Conversion Price in effect on such issuance or distribution date by a fraction:

- (a) the numerator of which will be:
 - (i) the product of the number of Common Shares outstanding on the date of such issuance or distribution and the Current Market Price of the Common Shares on the date of such issuance or distribution; less
 - (ii) the aggregate fair market value, as determined in good faith by the board of directors of the Company, to the holders of Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and
- (b) the denominator of which will be the product of the number of Common Shares outstanding on the date of such issuance or distribution and the Current Market Price of the Common Shares on such date.

6.7.4

If and whenever at any time after the date hereof and prior to the conversion of the principal amount of this Note available for conversion to Common Shares, there is a reclassification of the Common Shares at any time outstanding or change of the Common Shares into other shares or into other securities or some other capital reorganization (other than a Common Share Reorganization), or a consolidation, amalgamation or merger of, or an arrangement involving, the Company with or into any other Company or other entity, or a transfer of the undertaking or assets of the Company as an entirety or substantially as an entirety to another Company or other entity in which the holders of Common Shares are entitled to receive shares, other securities or other property (any of such events being called a “**Capital Reorganization**”), if the Holder exercises the right to convert any portion of the principal amount of this Note into Common Shares after the effective date of such Capital Reorganization the Holder will be entitled to receive, and will accept for the same aggregate consideration in lieu of the number of Common Shares to which such Holder was previously entitled upon such conversion, the aggregate number of shares, other securities or other property which the Holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, the Holder had been the registered holder of the number of Common Shares to which the Holder was previously entitled upon conversion. The Company will take all steps necessary to ensure that, on a Capital Reorganization, the Holder will receive the aggregate number of shares, other securities or other property to which it is entitled as a result of the Capital Reorganization. Appropriate adjustments will be made in the application of the provisions set forth in this Section 0 as a result of any such Capital Reorganization with respect to the rights and interests thereafter of the Holder to the end that the provisions set forth in this Section 0 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 conversion of this Note. Prior to or concurrent with effecting a Capital Reorganization, the Company will enter into an appropriate document which will set forth an appropriate adjustment to give effect to this Section 0.

6.7.5

For the purposes of Section 0:

(a) The adjustments provided for in Section 0 are cumulative and will be computed to the nearest one-hundredth of one cent and will be made successively whenever an event referred to therein occurs, subject to the following provisions of this Section 6.7.5.

(b) No adjustment in the Conversion Price will be required unless the cumulative effect of such adjustment would result in a change of at least 1% in the Conversion Price; provided, however, that any adjustments which, except for the provisions of this Section 0 would otherwise have been required to be made, will be carried forward and taken into account in any subsequent adjustment.

(c) If at any time a dispute arises with respect to adjustments provided for in Section 0, such dispute will be conclusively determined by the Company's auditors, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as agreed to by the Company and the Holder and any such determination will, absent manifest error, be binding upon the Company and the Holder. The Company agrees that such auditors or accountants will be given access to all necessary records of the Company. If any such determination is made, the Company will deliver an officer's certificate to the Holder describing such determination.

(d) If the Company sets a record date to determine the holders of Common Shares for the purpose of entitling them to receive any dividend or distribution or sets a record date to take any other action and thereafter and before the distribution to such shareholders of any such dividend or distribution or the taking of any other action, legally abandons its plan to pay or deliver such dividend or distribution or take such other action, then no adjustment in the Conversion Price shall be made.

(e) In the absence of a resolution of the board of directors of the Company fixing a record date for a Special Distribution or Rights Offering, the Company will be deemed to have fixed as the record date therefor the date on which the Special Distribution or Rights Offering is affected.

(f) The Company shall from time to time, as soon as practicable after the occurrence of any event which requires an adjustment or readjustment as provided in this Section 0, deliver an officer's certificate to the Holder specifying the nature of the event requiring the same and the amount of the adjustment or readjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(g) For greater certainty, in the case where Common Shares have been previously issued pursuant to this Note, there shall be no retroactive adjustment to such number of Common

Shares as a result of the occurrence of later events which require adjustments to the Conversion Price pursuant to this Section 0.

(h) No adjustment to the Conversion Price will be required upon the issuance from time to time of Common Shares, or options or other securities pursuant to the Company's stock option or other equity incentive plans or share purchase plans, or any dividend reinvestment plan, or any similar plan, if any, as such plans may be replaced, supplemented or further amended from time to time. In addition, for greater certainty, no adjustment to the Conversion Price will be required in connection with any offering from time to time of Common Shares or securities convertible into or exchangeable for Common Shares, whether by way of private placement or prospectus.

6.8 Liquidity Event

The Company shall deliver to the Security Agent, for and on behalf of the Holders, no less than 10 Business Days' prior written notice of the expected closing of any anticipated Liquidity Event (a "**Liquidity Event Notice**"), which notice shall contain details regarding the anticipated Liquidity Event including the offering or sale price per Common Share or the fair market value of the consideration per Common Share to be received in any merger, amalgamation, arrangement, reorganization or similar transaction (the "**Offering Price**"). Upon receipt of a Liquidity Event Notice, each Holder of Notes shall have the right, at such Holder's option, to convert its Notes into such number of Common Shares determined in accordance with this Agreement which shall be issued on the same terms and conditions, except the subscription price, as the Common Shares to be issued or sold by the Company in connection with such Liquidity Event. The Holder of a Note desiring to convert such Note shall deliver a Notice of Conversion to the Company in accordance with Section 6.2(a).

ARTICLE 7 REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties of the Company and the Guarantors

Each of the Company and the Guarantors represents and warrants to the Holders, acknowledging and confirming that the Holders are relying thereon without independent inquiry, that:

- (a) **Organization and Qualification**. The Company is a corporation duly incorporated, validity existing and in good standing under the laws of the Province of British Columbia. The Company has the corporate power and authority to carry on its business, own property, borrow monies and enter into agreements therefor, execute and deliver the Loan Documents to which it is a party and observe and perform the terms and provisions thereof..
- (b) **Conflict With Other Instruments**. The execution and delivery by the Company of the Loan Documents to which it is a party and the performance by the Company of its obligations thereunder and compliance with the terms, conditions and provisions thereof, will not conflict with or result in a breach in any material respect of any of the terms, conditions or provisions of (a) its organizational documents or by-laws,

- (b) any Applicable Law, (c) any resolution of the directors or shareholders of the Company, or (d) any contractual restriction binding on or affecting it or its material properties.
- (c) Authorization. The execution and delivery by the Company of each of the Loan Documents to which it is a party and the performance by the Company of its obligations thereunder has been duly authorized by all necessary corporate action on the part of the Company and any actions required under Applicable Law.
- (d) Governmental Consent, etc. No permit, consent, approval or authorization of, or declaration to or filing with, any Governmental Authority is required in connection with the execution, delivery and performance by the Obligors of this Agreement and the other Loan Documents to which each is a party, or the consummation by the Obligors of any other transactions contemplated hereby or thereby, except (i) as may have been made or obtained prior to the date of this Agreement or obtained after the Closing Date in accordance with the terms of the Loan Documents, (ii) the filing of such notices as may be required under Securities Laws and (iii) such filings as may be required under applicable Securities Laws, which will be timely filed within the applicable periods therefor.
- (e) Execution and Binding Obligation. This Agreement and the other Loan Documents have been duly executed and delivered by each of the Obligors which is a party thereto and constitute legal, valid and binding obligations of each of the Obligors which is a party thereto, enforceable against it in accordance with their respective terms, subject only to any limitation under Applicable Laws relating to (i) bankruptcy, insolvency, reorganization, moratorium or creditors' rights generally; (ii) the fact that specific performance and injunctive relief may only be given at the discretion of the courts; and (iii) the equitable or statutory powers of the courts to stay proceedings before them and to stay the execution of judgments.
- (f) Offering. Subject to and in reliance upon the accuracy of the Holders' representations and warranties in Section 7.3, the offer, sale and issuance of the Notes to be issued in conformity with the terms of this Agreement and the issuance of the Common Shares upon conversion of the Notes pursuant to Article 6 constitute transactions that comply are in compliance with the applicable Securities Laws.
- (g) Ownership of Property. Each of the Obligors has good and marketable title to all of its properties and assets, free and clear of all Liens, except for Permitted Liens. All Intellectual Property owned by each Obligor is described in Schedule 7.1(g) hereof.
- (h) Compliance with Laws. The Company and each other Obligor is in compliance with all Applicable Law, except for any non-compliance which could not reasonably be expected to have a Material Adverse Effect.
- (i) No Violation. Neither the Company nor any other Obligor has violated any law or any governmental regulation or requirement which violation has had or could

reasonably be expected to have a Material Adverse Effect, and neither the Company nor any Obligor has received notice of any such violation.

- (j) No Default. No Default or Event of Default has occurred and is continuing.
- (k) Litigation, Etc. Except as disclosed in Schedule 7.1(k), there are no actions, suits, proceedings, orders, investigations or claims pending, taken or, to the Company's knowledge, threatened against or affecting the Company or any Obligor (or to the Company's knowledge, pending or threatened against or affecting any of the directors, officers, shareholders or employees of the Company or any Obligor with respect to their respective businesses or proposed business activities), or pending or threatened by the Company or any Obligor against any third party, at law or in equity, or before any arbitrator or by any Governmental Authority (including, without limitation, any actions, suit, proceedings or investigations with respect to the Transactions). None of the Company or any other Obligor is subject to any judgment, order or decree of any court or other Governmental Authority.
- (l) Tax Liability. The Company and each other Obligor has filed or caused to be filed all tax returns which are required to be filed by or with respect to it and has paid all taxes, interest and penalties, if any, which have become due pursuant to such returns or pursuant to any assessment received by it, except any such assessment which is being contested in good faith by proper legal proceedings. Without limiting the foregoing all employee source deductions (including income taxes, employment insurance and pension plans) payroll taxes and workers' compensation dues are currently paid and up to date.
- (m) Financial Statements. The annual audited financial statements of the Company dated as of and for the period ending June 30, 2015 and the quarterly unaudited financial statements of the Company dated as of and for the period ending September 30, 2015, December 31, 2015 and March 31, 2016 have been prepared in accordance with IFRS adopted by the Company, applied on a consistent basis from year to year, except as disclosed therein, or as otherwise disclosed in or pursuant to this Agreement, and fairly present in all material respects the financial condition of the Company as at such date and the results of its operations for the fiscal period then ended. Since the date of such financial statements, there has been no event which has had or could reasonably be expected to have a Material Adverse Effect. Other than as set forth in Schedule 7.1(m), the Company has no contingent liabilities, liabilities, liabilities for taxes, long-term commitments or unrealized or forward anticipated losses from any unfavorable commitments which have not been disclosed in such financial statements.
- (n) Subsidiaries. As at the date hereof, the Company has two wholly owned subsidiaries, Extend to Social Media Inc. and FlowWorks Inc., as set forth in Schedule 1.1(e) hereto. The Company does not own or hold any right to acquire any membership interests or shares of stock or any other security or interest in any other Person.

- (o) Absence of Undisclosed Liabilities. Other than as set forth in Schedule 7.1(o), none of the Obligors has any material obligation or liability (whether accrued, absolute, contingent, unliquidated or otherwise, whether due or to become due and regardless of when asserted) arising out of transactions entered into at or prior to the closing of the Transactions, or any action or inaction at or prior to the date hereof, or any state of facts existing at or prior to such date.
- (p) No Material Adverse Effect. No Material Adverse Effect has occurred and is continuing.
- (q) Insurance. The Company is not in default with respect to its obligations under any insurance policy maintained by it and the Company has not been denied coverage. To the knowledge of the Company, the insurance coverage of the Company is customary for prudent companies of similar size engaged in similar lines of business.
- (r) Employment and Labour.
 - (i) The Company is not a party to any agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any director or officer, other than any common law obligations of reasonable notice of termination or pay in lieu thereof and any statutory obligations.
 - (ii) The Company is not subject to any collective bargaining agreements, and there are no current, pending or, to the knowledge of the Company, threatened strikes or lockouts at the Company.
 - (iii) The Company is not subject to any litigation, actual or, to the knowledge of the Company, threatened, relating to employment or termination of employment of employees or independent contractors.
 - (iv) The Company has operated, in all material respects, in accordance with all Applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or, to the knowledge of the Company, threatened proceedings before any board or tribunal with respect to any of the above areas.
 - (v) Other than as set forth in Schedule 7.1(r), there are no outstanding stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of the Company.
- (s) Environmental and Safety Matters. To the Company's knowledge: (a) the Company has in all material respects complied with and is currently in compliance in all material respects with all Environmental Laws, and the Company has not received

any oral or written notice, report or information regarding any liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) or any corrective, investigatory response or remedial obligations arising under Environmental Laws which relate to the Company or any of its properties or facilities, and (b) without limiting the generality of the foregoing, the Company has obtained and complied in all material respects, and are currently in compliance in all material respects, with all permits, licenses and other authorizations that may be required pursuant to any Environmental Laws for the occupancy of their properties or facilities or the operation of their businesses.

- (t) Affiliated Transactions. Other than as set forth in Schedule 7.1(t), no officer, director, shareholder or Affiliate of the Company or any individual known to be related by blood, marriage or adoption to any such individual or any entity in which any such Person or individual owns any beneficial interest, is a party to any agreement, contract, commitment, transaction or arrangement with the Company or has any material interest in any material property used by the Company.
- (u) Solvency. The Company and each other Obligor is on the date hereof, and after the incurrance of all Indebtedness hereunder and the other Loan Documents will be and will continue to be, Solvent.

7.2 Survival of Representations and Warranties

The representations and warranties herein set forth or contained in any certificates or notices delivered to the Holders pursuant hereto and shall continue in full force and effect (as of the date when made or deemed to be made) so long as any amounts are owing by the Company to the Holders hereunder.

7.3 Representations and Warranties of the Holders

Each Holder, by purchasing a Note hereunder, represents and warrants to the Company that it is not a resident of the United States or any of its several States, and that:

- (a) it is an "accredited investor" as defined under National Instrument 45-106 - *Prospectus Exemptions* or in section 73.3 of the *Securities Act* (Ontario);
- (b) it has the corporate power and authority to execute and deliver the Loan Documents to which it is a party and observe and perform the terms and provisions thereof;
- (c) this Agreement and the other Loan Documents to which it is a party have been duly executed and delivered by it and constitute its legal, valid and binding obligations, enforceable against it in accordance with their respective terms, subject only to any limitation under Applicable Laws relating to (i) bankruptcy, insolvency, reorganization, moratorium or creditors' rights generally; (ii) the fact that specific performance and injunctive relief may only be given at the discretion of the courts; and (iii) the equitable or statutory powers of the courts to stay proceedings before them and to stay the execution of judgments; and

- (d) the execution and delivery of the Loan Documents it and the performance by it of its obligations thereunder and compliance with the terms, conditions and provisions thereof, will not conflict with or result in a breach in any material respect of any of the terms, conditions or provisions of (i) its constating or organizational documents (including any shareholders' agreements) or by-laws, (ii) any Applicable Law, or (iii) any material judgment, injunction, determination or award which is binding on it.

ARTICLE 8 **COVENANTS**

8.1 Affirmative Covenants

Except as otherwise consented to by the Majority Holders and for so long as any amounts are owing by the Company to the Holders hereunder, the Company shall, and shall cause each Guarantor, as applicable, to:

- (a) Punctual Payment. Pay or cause to be paid all Obligations falling due hereunder on the dates and in the manner specified herein;
- (b) Conduct of Business. Do or cause to be done all things necessary or desirable to maintain its corporate existence in its present jurisdiction of organization, to maintain its corporate power and capacity to own its Property, and to carry on the Business in a commercially reasonable manner;
- (c) Compliance with Applicable Law and Contracts. Comply in all material respects with: (i) the material requirements of all Applicable Law and (ii) all obligations which, if contravened, would give rise to a Lien over any of its property ranking in priority to the Security;
- (d) Accounting Methods and Financial Records. Maintain a system of accounting which is established and administered in accordance with the IFRS adopted by the Company, applied on a consistent basis from year to year, keep adequate records and books of account in which accurate and complete entries shall be made in accordance with the income tax accounting principles adopted by the Company reflecting all transactions required to be reflected thereby, and keep accurate and complete records of any property owned by it;
- (e) Maintenance of Property. Maintain all of its Property used in the Business in good repair, working order and condition (ordinary wear and tear excepted) and from time to time make or cause to be made all necessary and appropriate repairs, renewals, replacements, additions and improvements thereto;
- (f) Insurance. Maintain insurance on its Property with financially sound and reputable insurance companies or associations including all-risk property insurance, comprehensive general liability insurance, and errors and omissions insurance in amounts and against risks that are determined to be appropriate by the Company acting prudently;

- (g) Security. Take such action from time to time as shall be necessary to ensure that the Security at all times constitutes a perfected Lien over the Property, subject only to Permitted Liens;
- (h) Consents and Approvals. Upon request by the Security Agent (who may in its discretion and shall, if instructed in writing by the Majority Holders, make such request), take such steps that are commercially reasonable to obtain any approvals or consents required now or in the future to permit (i) any asset over which the Security Agent, for and on behalf of the Holders, has or may have a security interest to be transferable to the Security Agent and by it to any other Person free of any restrictions on transfer; (ii) to permit the exercise of the conversion rights set forth in Article 6; or (iii) to permit the Company and the other Obligor to perform their obligations under this Agreement and the other Loan Documents;
- (i) Inspections. Permit the Security Agent (who may in its discretion and shall, if instructed in writing by the Majority Holders, take such action) and its authorized employees, representatives and agents, upon giving at least two Business Days' prior notice, at any time within first 12 months of the Closing Date and up to two times per calendar year thereafter, all at the expense of the Company:
 - (i) to visit and inspect its Property during normal business hours;
 - (ii) to inspect and make extracts from and copies of its books and records provided the Security Agent does not disclose confidential information to any Person; and
 - (iii) to appoint an observer to participate and have access to the Company's board of director's meetings and to discuss with senior management of the Company, as may be reasonably designated by the Security Agent (who may in its discretion and shall, if instructed in writing by the Majority Holders, make such designation), and with its auditors, its business, property and assets, financial condition and prospects;
- (j) Payment of Taxes and Claims. On a timely basis, comply with the following: file or cause to be filed all federal, provincial and local returns, filings, elections and reports which are required to be filed by it in respect of all Taxes; and shall pay or cause to be paid all such Taxes (and any interest and penalties in respect thereof) as may be required by Applicable Law and in accordance with any assessment or demand for payment received by the Company or any other Obligor as and when such Taxes become due and payable and provide evidence of payment if so requested by the Security Agent (who may in its discretion and shall, if instructed in writing by the Majority Holders, make such request), except when and so long as the validity of any such Taxes is in good faith being diligently contested by the Company or an Obligor; and shall from time to time withhold or cause to be withheld and remitted all amounts required to be withheld (including without limitation, income tax, withholding taxes on payments to non-residents, pension plan and employment insurance) from all payments made to officers and employees

or to all non-residents and to all other applicable Persons and shall pay or cause to be paid these amounts, together with any interest and penalties due, to the appropriate authority on a timely basis and in the form required by Applicable Law;

- (k) Use of Proceeds. Use the proceeds of the Notes only as set out in the Business Plan or as otherwise approved by the Security Agent for and on behalf of the Majority Holders, acting reasonably; provided that, for greater certainty, no proceeds from the sale of Notes may be used for the repayment of any Indebtedness (other than Permitted Indebtedness) or for the purpose of making any payment to any insider of the Company including for repayment of Indebtedness owing to any such insider;
- (l) Registration of Notes. If requested by the Security Agent, the Company shall within 90 days of such request register the Notes on a market facility through which the Notes can be traded and on which public quotations in common use are widely available;
- (m) Additional Guarantors. At the request of the Majority Holders, the Company shall promptly (and in any case no later than 10 Business Days after such request) cause to be delivered to the Security Agent, for and on behalf of the Holders:
 - (i) a Guarantee or Guarantee and Security Agreement from each material wholly-owned Subsidiary; and
 - (ii) a pledge of ownership interest of any subsidiary that is not a wholly-owned subsidiary.
- (n) Blocked Accounts Agreement. As soon as practicable, and in any event no later than the Closing Date, the Company shall deliver to the Security Agent the Blocked Accounts Agreement, in form and substance satisfactory to the Security Agent, and act accordingly until full repayment and release by the Security Agent.

8.2 Reporting Requirements

The Company shall, and shall cause, as applicable, each of the other Obligors to provide to the Security Agent (who shall promptly provide to each Holder):

- (a) Financial Information. As soon as practicable and in any event by the times indicated below, an Officer's Certificate (in the form specified in Schedule 8.2(a) attached hereto) including the following reports, as applicable:
 - (i) For the first six months following the Closing Date, as soon as practicable and in any event within 15 days of the end of each such month, monthly borrowing base certificate (in the form specified in Appendix A of Schedule 8.2(a)) accompanied by a monthly sales, contracts and cash flow reports as compared to the Business Plan, new equity investment in the Company in such month and summaries of account receivables and payables aged by due date and list of contingent liabilities and, thereafter, such borrowing base certificate and reports shall be delivered on a quarterly basis;

- (ii) As soon as practicable and in any event within 60 days of the end of each Fiscal Quarter of the Company (excluding the fourth Fiscal Quarter), the interim unaudited financial statements of each of the Company as at the end of such Fiscal Quarter prepared in accordance with the IFRS adopted by the Company, applied on a consistent basis from period to period, including, without limitation, a balance sheet, income statement and statement of cash flows, in each case as at the end of and for such Fiscal Quarter and the then elapsed portion of the Fiscal Year which includes such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding period or periods of (or in the case of the balance sheet, as at the end of) the previous Fiscal Year, in each case subject to year-end adjustments and the absence of footnotes together with a statement of sales and the aggregate amount of new equity investment in each such entity in such Fiscal Quarter;
 - (iii) As soon as practicable and in any event within 120 days of the end of each Fiscal Year of the Company, the annual audited financial statements of the Company, prepared in accordance with IFRS adopted by the Company, applied on a consistent basis from year to year, including, without limitation, a balance sheet, income statement and statement of cash flows as at the end of and for such Fiscal Year (which financial statements shall be audited by a regionally recognized accounting firm approved by the Security Agent, in its discretion, such approval not to be unreasonably withheld), setting forth in each case in comparative form the figures for the previous Fiscal Year; and
 - (iv) As soon as available and in any event no later than the end of each Fiscal Year of the Company (A) an annual Business Plan in respect of the Company approved by the board of directors of the Company for the upcoming Fiscal Year, in such format and detail as may be reasonably satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders) and (B) forecasts prepared by management of the Company, in such format and detail as may be reasonably satisfactory to the Security Agent (in its discretion except if instructed by the Majority Holders), consisting of balance sheets, income statements and statements of cash flows for the next two Fiscal Years, prepared on a consolidated basis.
- (b) Notice of Default. As soon as practicable after it becomes aware of the same, the Company shall provide to the Security Agent (who shall promptly provide to each Holder), notice of: (i) the occurrence or non-occurrence of any event which, upon notice, lapse of time or both, would constitute any Default or Event of Default; and (ii) any default under, or the occurrence or non-occurrence of any event which, upon notice, lapse of time or both, would constitute any default under, any material contract or any material lease of real property to which the Company or any Obligor is a party; in each case including the details thereof and the action proposed to be taken with respect thereto.

- (c) Notice of Litigation. As soon as practicable after it becomes aware of the same, the Company shall provide to the Security Agent (who shall promptly provide to each Holder), any notices of the commencement of, or threatened commencement of, any action, proceeding, arbitration or investigation (other than claims that are frivolous or vexatious and without merit) against or in any other way relating adversely to any of the Obligors or any of their respective properties, assets, permits or businesses, which if determined adversely against any of them, would expose any number of them to present or future liability in excess of \$10,000, determined in the aggregate. The Company shall also promptly, upon the request of the Security Agent (in its discretion except if instructed by the Majority Holders), provide to the Security Agent (who shall promptly provide to each Holder), status updates relating to all such actions or proceedings.
- (d) Material Adverse Effect. As soon as practicable after it becomes aware of the same, the Company shall provide to the Security Agent (who shall promptly provide to each Holder), notice of any development which has had or may reasonably be expected to have a Material Adverse Effect.
- (e) New Subsidiaries. In the event a Subsidiary of the Company is created or acquired after the date hereof, immediately provide notice thereof to the Security Agent, and, promptly upon request by the Majority Holders or the Security Agent on their behalf (and no later than 10 Business Days after such request), such
 - (i) new wholly-owned Subsidiary shall (i) become a Guarantor hereunder and (ii) deliver to the Security Agent, for and on behalf of the Holders, a Guarantee or Guarantee and Security Agreement, and
 - (ii) a pledge of ownership interest of any subsidiary that is not a wholly-owned subsidiary.
- (f) Notice of Change of Name. The Company shall provide to the Security Agent (who shall promptly provide to each Holder) at least 15 days' prior written notice of any change of name of the Company or any other Obligor and promptly take other steps, if any, as the Security Agent (in its discretion except if instructed by the Majority Holders), reasonably requests to permit it to maintain the perfection of the Security with respect to the change in name.
- (g) Notice of Change of Jurisdiction. The Company shall provide to the Security Agent (who shall promptly provide to each Holder) 30 days prior written notice of any change to the Company's or any other Obligor's chief executive office, place of business or place of residence, as applicable, to a jurisdiction where the Security given by it, or the Company or such Obligor, as applicable, has not been registered, and promptly take other steps, if any, as the Security Agent (in its discretion except if instructed by the Majority Holders) reasonably requests to perfect the Security with respect to the change in Relevant Jurisdiction or provide such additional Lien in favour of the Security Agent, for and on behalf of the Holders, as the case may be; provided that, none of the Company or any other Obligor may establish any

place of business or maintain any material personal property outside of Canada or the United States of America.

8.3 Negative Covenants

Except as otherwise consented to by the Majority Holders and for so long as any amounts are owing by the Company to the Holders hereunder, the Company may not, and may not permit any other Obligor to:

- (a) Change of Business. Engage in, or permit any of its Subsidiaries to engage in, any businesses other than the Business conducted on the effective date of this Agreement and businesses of the same type or directly related thereto.
- (b) Disposition of Assets. Sell, transfer or otherwise dispose of any of its Property, whether now owned or hereafter acquired, except that the Company and/or the Obligors may:
 - (i) sell in the normal course of its business, for the purpose of carrying on the same, for fair value, in accordance with customary trade terms, any Property that would reasonably be considered to be the subject matter of sales by it in the normal course of its business for the purpose of carrying on the same;
 - (ii) sell, transfer or otherwise dispose of any Property that is worn out or obsolete or of no material value; or
 - (iii) sell, transfer or otherwise dispose of any equipment which has been or will be substantially concurrently replaced, all in the ordinary course of business and on commercially reasonable terms.
- (c) Acquisitions and Expenditures. Make any Acquisition or expenditure, other than (i) in accordance with the Business Plan, and (ii) Acquisitions and expenditures as may be approved in advance by the Security Agent (in its discretion except if instructed by the Majority Holders), acting in a timely and reasonable manner; *provided that* (x) no Default or Event of Default has occurred; and (y) any such Acquisition or expenditure shall not be permitted if it is reasonably likely that such Acquisition or expenditure could have a Material Adverse Effect on the financial condition of the Company or any of the Obligors or on the value of any of the Property which is subject to the Security.
- (d) Investments. Make any Investments other than (i) in the case of Obligors, in accordance with the Business Plan, (ii) an Investment by an Obligor in another Obligor, (iii) in cash and Cash Equivalents, or (iv) as may be approved in advance by the Security Agent (in its discretion except if instructed by the Majority Holders), acting reasonably; *provided that*, in each case, (x) no Default or Event of Default has occurred and (y) any such Investment shall not be permitted if it is reasonably likely that such Investment could have a Material Adverse Effect on the financial condition of any of the Obligors or on the value of any of the Property which is subject to the Security.

- (e) Amalgamations, Reorganization, etc. Enter into any amalgamation or consolidation or merger or liquidate, wind-up or dissolve itself (or permit any liquidation, winding-up or dissolution or any proceedings therefor) or continue itself under the laws of any other statute or jurisdiction, except that, subject to the any Obligor taking such action, and executing and delivering to the Security Agent, for and on behalf of the Holders, such agreements and other documents as the Security Agent (in its discretion except if instructed by the Majority Holders) may reasonably require to assure the continued validity, enforceability and effectiveness of the Security and the covenants, agreements and obligations of the Company under the Loan Documents, and provided that there does not then exist a Default or an Event of Default hereunder and such action would not result in the occurrence of a Default or an Event of Default hereunder, any wholly-owned Subsidiary may be amalgamated or consolidated or merged or liquidated, wound-up or dissolved with or into (i) the Company, provided that the Company is the continuing company or (ii) any one or more other wholly-owned Subsidiaries.
- (f) Non-Arm's Length Transactions. Other than as disclosed to the Security Agent or any Holders prior to the date of this Agreement, or as may be consented to by the Security Agent, acting in a timely and reasonable manner, (in its discretion except if instructed by the Majority Holders), enter into any transaction, including the purchase, sale or exchange of any Property or the rendering of any services, with any of its shareholders or with any of its Affiliates, or with any of its or their directors or officers, as applicable, or enter into, assume or permit to exist any employment, consulting or analogous agreement or arrangement with any such shareholder or Affiliate or with any of its directors or officers, as applicable, except a transaction or agreement or arrangement which is in the ordinary course of business of the Company or such Subsidiary and which is upon fair and reasonable terms not less favourable to the Company or such Subsidiary than it would obtain in a comparable arm's-length transaction (for greater certainty, this Section 8.3(f) shall not operate to prohibit the issuance of the Notes, or any issuance of Common Shares permitted pursuant to the terms of this Agreement).
- (g) Bankruptcy, Insolvency, Etc. Take or institute any proceedings for the winding up, liquidation, dissolution or commencement of bankruptcy or insolvency proceedings with respect to the Company or a Subsidiary.
- (h) Lien. Create, incur, assume or suffer to exist any Lien on any assets of the Company or any other Obligor, other than Permitted Liens.
- (i) Indebtedness. Create, incur, assume or permit to remain outstanding, or otherwise become directly or indirectly liable upon or in respect of, Indebtedness other than Permitted Indebtedness.
- (j) Distributions and Dividends. Declare or pay or permit any Distribution, other than:
 - (i) bonuses or other compensation arrangements (including management fees and routine employee benefits) paid to employees, directors or officers of

the Company in the ordinary course of business, consistent with past compensation arrangements and which are commercially reasonable and are consistent with arrangements that have been approved by the board of directors of the Company;

- (ii) routine and reasonable fees paid to directors of the Company; and
 - (iii) any such dividends, capital payments, redemptions, bonuses or distributions paid by the Company to an Obligor.
- (k) Accounting Policy. Make any change to the accounting policies and practices of the Company, except with the prior written consent of the Security Agent, which consent shall not unreasonably be withheld.
- (l) Organizational Documents. Amend, alter, or repeal any provision of the certificate of incorporation, articles of incorporation, articles or any other organizational document of the Company or alter or change the rights, preferences or privileges of any stock of the Company.

8.4 Environmental Compliance and Indemnity

The Company shall, and shall cause each of its Subsidiaries to, carry on its Business, and maintain its Property (in the case of non-owned real property, to the extent within its control) in accordance with Environmental Laws and promptly remedy any compliance issues.

If there is any Release of Contaminants in connection with the Business or Property of the Company or any of its Subsidiaries, the Company shall indemnify and save harmless the Holders and the Security Agent, their directors, officers, employees and agents for any and all losses, damages, fines, costs and other amounts (including amounts spent preparing any necessary environmental assessment or other reports, or defending any lawsuits) that result from such Release. Upon the request of the Majority Holders or the Security Agent, the Company will defend any lawsuits, investigations or prosecutions brought against the Holders and/or the Security Agent or any of their/its directors, officers, employees and agents in connection with any Release (except to the extent such liabilities (i) are incurred solely following enforcement by the Holders and/or the Security Agent or following the Holders and/or the Security Agent having become the successor-in-interest to the Company or any of its Subsidiaries and (ii) are attributable to the negligence or willful misconduct of the indemnitee). The Company's obligation under this Section 8.4 shall continue even after all Obligations have been repaid in full and the Notes have been cancelled

The Company shall provide to the Security Agent (who shall promptly provide to each Holder) such information and reports relating to environmental matters as the Security Agent (in its discretion except if instructed by the Majority Holders) may reasonably request from time to time and that the Company has access to or can readily and reasonably gain access to.

8.5 Entitled to Perform Covenants

If the Company or any other Obligor fails to perform any covenant contained in Section 8.1, or in any other provision hereof or of any of the other Loan Documents or breaches Section 8.3, the Majority Holders or the Security Agent may (but shall have no obligation to) perform, without thereby waiving any rights to enforce this Agreement or the other Loan Documents, any such covenant capable of being performed by it and if any such covenant requires the payment of money the Majority Holders or the Security Agent may (but shall have no obligation to) make such payments. All sums so expended by the Majority Holders or the Security Agent shall be deemed to form part of the Obligations, shall bear interest at the same rate as the Principal Amount following the occurrence of an Event of Default and shall be payable by the Company on demand.

ARTICLE 9 EVENTS OF DEFAULT AND REMEDIES

9.1 Events of Default

The occurrence of any of the following events constitutes an Event of Default:

- (a) Failure to Make Payments. If the Company shall fail to pay, in accordance with the terms of this Agreement, any Principal Amount or any interest payable in respect thereof on the date such sum is due, or if the Company shall fail to pay any other fee, cost, charge or other sum due under this Agreement or any other Loan Document, including Blocked Account Agreement into which all revenues and all other proceeds shall be deposited;
- (b) Negative Covenants. If the Company defaults in the performance or observance of any negative covenant contained herein, and such default is not remedied within 5 days of the occurrence thereof and such failure is not remedied within 3 days of such failure; or
- (c) Other Covenants. If the Company or any Obligor defaults in the performance or observance of any other term, condition, covenant, or obligation contained in any Loan Document, other than terms, conditions, covenants or obligations referred in Section 9.1(a) or (b), and such default is not remedied within 15 days of the occurrence; or
- (d) Default under other Indebtedness. If the Company or any of its Subsidiaries has failed to pay any amount of Indebtedness (other than Indebtedness incurred hereunder) exceeding an aggregate of \$5,000 (or the equivalent amount in any other currency) when properly due and payable by the Company or any of its Subsidiaries, and such default continues after the grace period, if any, specified in the instrument or agreement related to such Indebtedness, or any amount or amounts exceeding an aggregate of \$5,000 (or the equivalent amount in any other currency) has been declared or is capable of being declared, to be due and payable by the Company or any of its Subsidiaries whether on or prior to the stated maturity date thereof or on or prior to the regularly scheduled date for payment thereof; or

- (e) Representations and Warranties. If any representation or warranty made by the Company or any Obligor herein or in any other Loan Document is found to be false or incorrect in any material respect on the date as of which it was made; or
- (f) Loan Documents. If any of this Agreement, the Security Documents, the other Loan Documents or any part thereof, at any time after its respective execution and delivery and for any reason, ceases in any way to be in full force and effect as against the Company or any other Obligor or to be a legal, valid, binding and enforceable obligation of the Company or any other Obligor or any other Person that is a party to such document, or if the Security or any part of the Security, at any time after its execution and delivery and for any reason, ceases in any way to constitute a Lien of the nature and priority specified in or contemplated by this Agreement, the Security Documents or the other Loan Documents (subject to Permitted Liens), or if it is or becomes unlawful for the Company or any other Obligor to perform or comply with any or all of its obligations under any of this Agreement, the Security Documents or the other Loan Documents, or if the validity or enforceability of any of this Agreement, the Security Documents or the other Loan Documents is disputed in any manner by the Company or any other Obligor or any other party thereto; or
- (g) Voluntary Insolvency Actions. If the Company or any other Obligor institutes proceedings for its winding up, liquidation or dissolution, or takes action to become a voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a proposal, a notice of intention to make a proposal, a petition or answer or consent seeking reorganization, readjustment, arrangement, composition or similar relief under any Bankruptcy Law or any other similar Applicable Law or consents to the filing of any such petition, or consents to the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of all or any part of the property of the Company or any other Obligor or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or commits any other act of bankruptcy, or suspends or threatens to suspend transaction of its usual business, or any action is taken by the Company or any other Obligor in furtherance of any of the aforesaid; or
- (h) Involuntary Insolvency Proceedings. If proceedings are instituted in any court of competent jurisdiction for the winding up, liquidation or dissolution of the Company or any other Obligor or for any reorganization, readjustment, arrangement, composition or similar relief with respect to the Company or any other Obligor under any bankruptcy law or any other applicable insolvency law including any proceeding, proposal, notice of intention to make a proposal, order or petition under Bankruptcy Law, or for the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of all or any part of the property of the Company or any other Obligor, and such proceeding has not been dismissed within 30 days from and including the day on which it was commenced; or
- (i) Appointment of Receiver. If a receiver, manager, receiver and manager, trustee, custodian, liquidator or other similar official is appointed in respect of the Company

or any other Obligor or any part of the property of the Company or any other Obligor and, in the case of any such involuntary appointment, at any time thereafter and the effect of such appointment has not been stayed within 45 days from and including the day of such appointment; or

- (j) Judgments. Other than as disclosed to the Security Agent in writing prior to the date of this Agreement, if any judgment of a court of competent jurisdiction has been granted or issued against the Company or any other Obligor (i) in an individual case an amount in excess of \$5,000 (other than a judgment covered by insurance as to which the insurance company has not disclaimed or reserved the right to disclaim coverage) or (ii) in the aggregate at any time outstanding amount in excess of \$10,000 (or in either case, the equivalent amount in any other currency) (other than judgment(s) covered by insurance as to which the insurance company has not disclaimed or reserved the right to disclaim coverage), and such judgment(s) continues unsatisfied and in effect for a period of more than 30 days from the date of its entry and are not stayed or suspended, by pendency of an appeal or otherwise, during such period; or
- (k) Encumbrances. If an encumbrancer takes possession of any material part of the Property of the Company or any other Obligor or if a distress or execution or any similar process is levied or enforced against any material part of the Property of the Company or any other Obligor; or
- (l) Cease to Carry on Business. If the Company or any other Obligor ceases or threatens to cease to carry on all or a material part of its business, except with the written consent of the Security Agent; or
- (m) Material Adverse Change. If any event occurs or any circumstance or condition exists which in any case results in a Material Adverse Effect and such effect is not remedied within 3 days of such occurrence or existence; or
- (n) Change of Control. If, after the date of this Agreement, there is a Change of Control or an acquisition of Control of the Company except with the written consent of the Majority Holders.

9.2 Remedies Upon Default

Notwithstanding any other term of this Agreement or any other Loan Document, upon the occurrence and during the continuance of any Event of Default, the Security Agent (in its discretion except if instructed by the Majority Holders) or the Majority Holders, each acting reasonably, may declare all Obligations to be immediately due and payable and the same shall forthwith become immediately due and payable by the Company to the Holders on demand, in each case, without presentment, protest or further notice, all of which are hereby waived by the Company.

In the event that an Event of Default has occurred, the Majority Holders may at any time waive such Event of Default or rescind any action taken pursuant to Section 9.2.

9.3 Distributions

All distributions under or in respect of any of the Loan Documents shall be held by the Security Agent or the Holders on account of the Obligations without prejudice to any claim by the Holders for any deficiency after such distributions are received by the Holders and the Company shall remain liable for any such deficiency. All such distributions shall be applied in accordance with the provisions of this Agreement and may be applied to such part of the Obligations as the Majority Holders may see fit in their sole discretion, and the Majority Holders may at any time change any appropriation of any such distributions or other moneys received by them and reapply the same on any other part of the Obligations as the Majority Holders may see fit, in their sole discretion, notwithstanding any previous application.

9.4 Notice of Events of Default

If an Event of Default occurs and is continuing the Security Agent will, within 30 days after it becomes aware of the occurrence of such Event of Default, give notice of such Event of Default to the Company and the Holders in the manner provided in Section 11.3 unless the default has been waived pursuant to section 9.6.

Where notice of the occurrence of an Event of Default has been given and the Event of Default is thereafter cured, notice that the Event of Default is no longer continuing will be given by the Security Agent to the Holders in the manner provided in 11.3 within a reasonable time not exceeding 30 days after the Security Agent becomes aware that the Event of Default has been cured.

9.5 Acceleration

If an Event of Default occurs, the Security Agent (in its discretion except if instructed by the Majority Holders) or the Majority Holders may declare the Principal Amount of the Notes then outstanding, all accrued and unpaid interest owing in respect thereof and all other monies payable hereunder to be due and payable and such principal and interest shall immediately become due and payable by the Company to the Holders on demand, and the Company shall on such demand forthwith pay to the Holders the Principal Amount of and accrued and unpaid interest on amounts in default on such Notes and all other amounts payable hereunder together with subsequent interest thereon at the applicable Interest Rate from the date of the said declaration until payment is received by the Holders, such subsequent interest to be payable at the times and places and in the monies mentioned in and according to the tenor of the Notes. Such payment when made will be deemed to have been made in discharge of the Company's obligations hereunder and any monies so received by the Security Agent or the Holders will be applied as herein provided.

9.6 Waiver of Default

If an Event of Default occurs other than by default in payment of any Principal Amount on the Maturity Date, the Majority Holders shall have the power by requisition in writing to instruct the Security Agent to waive the default or to cancel any declaration made by the Security Agent made pursuant to Section 9.5 and the Security Agent shall then waive the default or cancel the declaration upon such terms and conditions as such Holders prescribe; and the Security Agent (in its discretion except if instructed by the Majority Holders) shall, so long as it has not become

bound to institute any proceedings hereunder, have the power, subject to Applicable Law, to waive any default arising hereunder except in payment of any Principal Amount payable on the Maturity Date if, in the Security Agent's opinion, such default is not adverse to the interests of the Holders or has been cured or adequate satisfaction has been made, and in such event to cancel any such declaration made by the Security Agent in the exercise of its discretion, upon such terms and conditions as the Security Agent may deem advisable; provided that no act or omission either of the Security Agent or of the Holders in the premises will extend to or be taken in any manner whatsoever affect any subsequent default or the rights resulting therefrom.

9.7 Remedies of Security Agent

If an Event of Default occurs and is continuing and is not waived as provided in Section 9.6, the Security Agent may, and shall upon receipt of written instruction of the Super-Majority Holders directing it to do so, enforce its rights by any one or more of the following remedies:

- (a) by taking possession of the Collateral or any part of it and collecting, demanding, suing, enforcing, recovering, receiving and getting in the Collateral;
- (b) by licensing, selling or granting a security interest in all or any part of the Collateral, whether or not it has taken possession of it;
- (c) by proceedings in any court of competent jurisdiction for the appointment of a receiver or receiver-manager of all or any part of the Collateral;
- (d) by selling, leasing or otherwise disposing of all or any part of the Collateral, whether by public or private sale or lease or otherwise, in such manner, and at such price as can be reasonably obtained therefor and on such terms as to credit and with such conditions of sale and stipulations as to title or conveyance or evidence of title or otherwise as the Security Agent may deem reasonable, provided that if any sale is on credit the Company will not be entitled to be credited with the proceeds of any such sale, lease or other disposition until the monies therefor are actually received;
- (e) by filing of proofs of claim and other documents to establish its claim in any proceeding or proceedings relating to the Company;
- (f) by appointing by instrument in writing a receiver, receiver-manager or receiver and manager (the person so appointed is hereinafter called the "**Receiver**") of the Collateral, with or without bond as the Security Agent may determine, and from time to time in its absolute discretion remove such Receiver and appoint another in its stead by appointment by instrument in writing of a receiver or receiver-manager of all or any part of the Collateral;
- (g) by entering upon any premises of the Company and taking possession of the Collateral with power to exclude the Company, its agents and its servants therefrom, without becoming liable as a mortgagee in possession and the Company

hereby grants to the Holders and the Security Agent a license to occupy any premises of the Company for the purpose of storage of the Collateral;

- (h) by retaining any of the Collateral in satisfaction of all or part of the Obligations provided that the value of any Collateral so retained does not exceed the amount of the Obligations so satisfied; and
- (i) by any other remedy or proceeding authorized or permitted by this Agreement or by law or equity.

All action taken under this Section 9.7 will be taken on behalf of and for the equal benefit of all Holders.

The provisions of Section 9.8(e) will apply *mutatis mutandis*, to a sale or lease of any of the Collateral by the Security Agent pursuant to Section 9.7(b).

No purchaser at any sale purporting to be made in pursuance of the powers set forth in Section 9.7(b) will be bound to see or inquire whether any default has been made or continues or whether any notice required hereunder has been given or as to the necessity or expediency of the stipulations subject to which such sale has been made or otherwise as to the propriety of such sale, or regularity of proceedings or be affected by notice that such default has been made or continues or notice given as aforesaid, or that the sale is otherwise unnecessary, improper or irregular; and notwithstanding any impropriety or irregularity or notice thereof to such purchaser, the sale as regards such purchaser will be deemed to be within the aforesaid power and be valid accordingly and the remedy, if any, of the Company in respect of any impropriety or irregularity whatsoever in any such sale will be in damages only.

9.8 Receiver or Receiver Manager

If the Security Agent appoints a Receiver pursuant to Section 9.7(f), any such Receiver will have the following powers:

- (a) to take possession of the Collateral or any part thereof, and to collect and get in the same and for that purpose to enter into and upon any lands, tenements, buildings, houses and premises wheresoever and whatsoever and to do any act and take any proceedings in the name of the Company, or otherwise, as the Receiver deems necessary;
- (b) to carry on or concur in carrying on the business of the Company (including, without limitation, the payment of the obligations of the Company whether or not they are due and the cancellation or amendment of any contracts between the Company and any other person) and the employment and discharge of such agents, managers, clerks, accountants, employees, contractors, workers and others upon such terms and with such salaries, wages or remuneration as the Receiver thinks proper;
- (c) to repair and keep in repair the Collateral or any part or parts thereof and to do all necessary acts and things for the protection of the Collateral;

- (d) to make any arrangement or compromise which he thinks expedient in the interest of the Security Agent or the Company and to assent to any modification or change in or omission from the provisions of this Agreement;
- (e) to exchange any part or parts of the Collateral for any other property suitable for the purposes of the Company upon such terms as may seem expedient and either with or without payment or exchange of money or equality of exchange or otherwise;
- (f) to raise on the security of the Collateral or any part or parts thereof, by mortgage, charge or otherwise any sum of money required for the repair, insurance or protection thereof, or any other purposes herein mentioned, or as may be required to pay off or discharge any lien, charge or encumbrance upon the Collateral or any part thereof, which would or might have priority over the security interests hereby created; and
- (g) whether or not the Receiver has taken possession, to sell or lease or concur in the sale or leasing of any of the Collateral or any part or parts thereof after giving the Company not less than 20 days written notice of his intention to sell or lease and to carry any such sale or lease into effect by conveying, transferring or assigning in the name of or on behalf of the Company or otherwise; and any such sale or lease may be made either at public auction or privately as the Receiver determines and any such sale or lease may be made from time to time as to the whole or any part or parts of the Collateral; and the Receiver may make any stipulations as to title or conveyance or commencement of title or otherwise which the Receiver deems proper; and the Receiver may buy in or rescind or vary any contract for the sale or lease of any of the Collateral or any part or parts thereof, and may resell and re-lease without being answerable for any loss occasioned thereby; and the Receiver may sell or lease any of the same as to cash or part cash and part credit or otherwise as appears to be most advantageous and at such prices as can be reasonably obtained therefor and in the event of a sale or lease on credit neither he nor the Security Agent will be accountable or charged with any monies until actually received.

Any Receiver appointed hereunder or any one or more of the Holders or any agent or representative thereof, may become purchasers at any sale or other realization proceedings in respect of the Collateral, or any part thereof, whether made under the power of sale contained in this Agreement or pursuant to judicial proceedings.

The Receiver appointed and exercising powers under the provisions hereof will not be liable for any loss unless the loss is caused by the Receiver's own negligence or wilful default, and the Receiver will, when so appointed, be deemed to be the agent of the Company and the Company will be solely responsible for the Receiver's acts and defaults and for the Receiver's remuneration.

No purchaser at any sale and no lessee under any lease purporting to be made in pursuance of the powers set forth in Section 9.8(g) will be bound to see or inquire whether any default has been made or continues or whether any notice required hereunder has been given or as

to the necessity or expediency of the stipulations subject to which such sale or lease has been made or otherwise as to the propriety of such sale or lease, or regularity of proceedings or be affected by notice that such default has been made or continues or notice given as aforesaid, or that the sale or lease is otherwise unnecessary, improper or irregular; and notwithstanding any impropriety or irregularity or notice thereof to such purchaser or lessee, the sale or lease as regards such purchaser or lessee will be deemed to be within the aforesaid power and be valid accordingly and the remedy, if any, of the Company in respect of any impropriety or irregularity whatsoever in any such sale or lease will be in damages only.

9.9 No Suits by Holders

No Holder will have any right to institute any action, suit or proceeding at law or in equity or to exercise any other remedy authorized by this Agreement for the purposes of enforcing payment of the Principal Amount of or any premium or interest on any Note or enforcing any right on behalf of the Holders or for the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or for a receiving order under Bankruptcy Law or to have the Company wound up or to file or prove a claim in any liquidation or bankruptcy proceeding or for any other remedy hereunder, unless (i) such holder has previously given to the Security Agent written notice of the happening of an Event of Default hereunder; (ii) the Majority Holders have made a request to the Security Agent and the Security Agent has been afforded reasonable opportunity either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its name for such purpose; (iii) the Holders or any of them has furnished to the Security Agent, when so requested by the Security Agent, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (iv) the Security Agent has failed to act within a reasonable time after such notification, request and offer of indemnity; in such case, but not otherwise, any Holder acting on behalf of himself and all other Holders will be entitled to take proceedings in any court of competent jurisdiction such as the Security Agent might have taken under Section 9.7; it being understood and intended that no one or more Holders will have any right in any manner whatsoever to effect, disturb or prejudice the rights hereby created by his or their action or to enforce any right hereunder or under any Note, except subject to the conditions and in the manner herein provided, and that all duties and powers hereunder will be exercised and all proceedings at law will be instituted, had and maintained by the Security Agent, except only as herein provided, and in any event for the equal benefit of all Holders.

9.10 Application of Proceeds by Security Agent

Subject to the claims of secured creditors ranking in priority to this Agreement, all monies arising from any enforcement hereof including the sale of the Collateral, together with any other monies then or thereafter in the hands of the Security Agent available for that purpose, will be applied by the Security Agent as follows:

- (a) first, to pay and discharge all rents, taxes, insurance premiums and other charges affecting the Collateral;
- (b) second, to the costs of sale or lease and taking possession, including the remuneration of the Receiver, if applicable;

- (c) third, in payment or reimbursement to the Security Agent of the remuneration, expenses, disbursements and advances of the Security Agent earned, incurred or made in the administration or execution of its powers and duties hereunder or otherwise in relation to this Agreement with interest thereon as herein provided;
- (d) fourth, to pay all amounts required to keep in good standing all liens and charges on the Collateral prior to the security interests hereby created;
- (e) fifth, in or towards payment of the Principal Amount and accrued and unpaid interest thereon, and interest on amounts in default under the Notes which are then outstanding, and all other monies owing hereunder in that order of priority; and
- (f) the balance, if any, to the Company.

If the proceeds of a sale of the Collateral by the Security Agent under Section 9.7(b) are insufficient to fully pay the balance owing to the Holders under the Notes, the Company will forthwith pay to the Security Agent the deficiency.

9.11 Distribution of Proceeds

Payments to Holders pursuant to Section 9.10(e) will be made as follows:

- (a) at least 15 days' notice of every such payment will be given to the Holders in the manner provided in Section 11.3 specifying the time when and the place or places where the Notes are to be presented and the amount of the payment and the application thereof as between principal and interest;
- (b) payment of any Note will be made upon presentation thereof at any one of the places specified in such notice and any such Note thereby paid in full will be surrendered, otherwise a memorandum of such payment will be endorsed thereon; but the Security Agent may in its discretion dispense with presentation and surrender or endorsement in any special case upon such indemnity being given as it deems sufficient;
- (c) from and after the date of payment specified in the notice, interest will accrue only on the amount owing on each Note after giving credit for the amount of the payment specified in such notice unless the Note with respect to which such amount is owing is duly presented on or after the date so specified any payment of such amount is not made; and
- (d) the Security Agent will not be bound to apply or make any partial or interim payment of any monies coming into its hands if the amount so received by it, after reserving an amount as the Security Agent may think necessary to provide for the payment mentioned in section 9.10(a) through 9.10(d) is insufficient to make a distribution of at least 3% of the aggregate principal amount of the outstanding Notes, but it may retain the money so received by it and invest or deposit such monies until their money or the investments representing the same, with the income derived therefrom, together with any other moneys for the time being under its

control is sufficient to make a distribution of at least that amount or until it otherwise considers it advisable to apply the monies. The foregoing will, however, not apply to a final payment in distribution hereunder.

9.12 Remedies Cumulative

No remedy herein conferred upon or reserved to the Security Agent, or upon or to the Holders is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given hereunder or now existing or hereafter to exist by law or by statute.

9.13 Judgment Against the Company

The Company covenants and agrees with the Security Agent that, in case of any judicial or other proceedings to enforce the rights of the Holders, judgment may be rendered against it in favour of the Holders or in favour of the Security Agent, as security agent for the Holders, for any amount which may remain due in respect of the Notes and the interest thereon.

9.14 Appointment of Observer or Director and Assistance in Event of Default

The Company covenant and agrees with the Security Agent to appoint a person designated by the Security Agent as a director or special observer to the board of directors at any time upon the request of the Security Agent. In addition, the Company covenant and agrees with the Security Agent that in the Event of Default, the Company will cause a person designated by the Security Agent to provide consulting services to the Company to assist in the operations of the Company for a period of six (6) months at a standard prevailing market rate of compensation.

ARTICLE 10
CONCERNING THE SECURITY AGENT

10.1 Rights and Duties of Security Agent

- (a) In the exercise of the rights, duties and obligations prescribed or conferred by the terms of this Agreement, the Security Agent will act honestly and in good faith with a view to the best interests of the Holders and will exercise the degree of care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.
- (b) The obligation of the Security Agent to commence or continue any act, action or proceeding for the purpose of enforcing any rights of the Security Agent or the Holders under the Security will be conditional upon the Holders furnishing, when required by notice in writing by the Security Agent, sufficient funds to commence or continue such act, action or proceeding and indemnity reasonably satisfactory to the Security Agent to protect and hold harmless the Security Agent against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof. None of the provisions contained in this Agreement will require the Security Agent to expend or risk its own funds or

otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless indemnified and funded as aforesaid.

- (c) The Security Agent may, before commencing or at any time during the continuance of any such act, action or proceeding, require the Holders at whose instance it is acting to deposit with the Security Agent the Notes held by them, for which Notes the Security Agent will issue receipts.

10.2 Evidence, Experts and Advisers

- (a) In addition to the reports, certificates, opinions and other evidence required by this Agreement, the Company will furnish to the Security Agent such additional evidence of compliance with any provision hereof, and in such form, as may be prescribed by Applicable Law or as the Security Agent may reasonably require by written notice to the Company.
- (b) In the exercise of its rights, duties and obligations, the Security Agent, if it is acting in good faith, may rely as to the truth of the statements and the accuracy of the opinions expressed therein, upon statutory declarations, opinions, reports, certificates or other evidence referred to in Section 10.2(a) provided that such evidence complies with Applicable Law and that the Security Agent examines the same in order to determine whether such evidence indicates compliance with the applicable requirements of this Agreement.
- (c) Whenever Applicable Law requires that evidence referred to in Section 10.2(a) be in the form of a statutory declaration, the Security Agent may accept such statutory declaration in lieu of a certificate of the Company required by any provision hereof. Any such statutory declaration may be made by one or more of the president, the secretary, the treasurer, or any vice-president, or a director of the Company.
- (d) The Security Agent may employ or retain such counsel, accountants, engineers, appraisers or other experts or advisers as it may reasonably require for the purpose of discharging its duties hereunder and will not be responsible for any misconduct on the part of any of them.
- (e) All costs incurred by the Security Agent in carrying out its duties as security agent under the Security pursuant to this Agreement shall be paid by the Company, immediately on demand and shall be secured by the Security.

10.3 Security Agent Not Required to Give Security

The Security Agent will not be required to give any bond or security in respect of the execution of the powers granted to it under this Agreement or otherwise in respect of the premises.

10.4 Protection of Security Agent

In addition to any protection afforded to the Security Agent at law, it is expressly declared and agreed between the Holders, the Company and the Security Agent as follows:

- (a) The Security Agent will not be liable for or by reason of any statements of fact or recitals in this Agreement or in the Notes (except in the certificate of the Security Agent thereon) or be required to verify the same, but as the same relate to the Company and to the Obligor, all such statements or recitals are and will be deemed to be made by the Company.
- (b) The Security Agent is not obliged to see to or to require evidence of the registration or filing (or renewal thereof) of this Agreement or any instrument ancillary or supplemental hereto.
- (c) The Security Agent will not be bound to give notice to any person or persons by reason of the execution hereof.
- (d) The Security Agent will not incur any liability or responsibility whatsoever or be in any way responsible for the consequence of any breach on the part of the Company of any of the covenants herein contained or of any acts of the agents or servants of the Company.
- (e) Subject to Section 10.1(a), the Company and the Holders acknowledge and agree that the burden and obligation of supervising and utilizing the security interests granted hereunder is that of the Holders and not that of the Security Agent, that the sole obligation of the Security Agent is to exercise the powers granted hereunder only and on the specific written instructions of the Holders, and that the Company will save and hold harmless the Security Agent from all liability for any and all acts or omissions in respect hereto.
- (f) The Security Agent, its Affiliates and their respective directors, officers and employees and advisors, including without limitation AIP Private Capital Inc., in a personal or any other capacity, may buy, lend upon and deal in Common Shares or other Voting Securities of the Company and in the Notes and generally may contract and enter into financial transactions with the Company or any Affiliate without being liable to account for any profit made thereby.
- (g) Subject to Section 10.1(a), in the event of any dispute arising regarding any term of this Agreement, the Security Agent may, at its option, refuse to comply with any or all demands made under this Agreement until such dispute is resolved either by agreement among the parties or by a court of competent jurisdiction.
- (h) Subject to Section 10.1(a), the Security Agent is entitled not to act and will not be liable for refusing to act unless it has received clear and reasonable instructions from the Company or the Holders, as the case may be, which comply with the terms of this Agreement and which do not require the exercise of any discretion or independent judgment on the part of the Security Agent.

- (i) The Security Agent is entitled to refuse all instructions and will not be liable for refusing instructions which in any way alter the purpose of this Agreement unless such instructions, if affecting the Company, are consented to by the Company and, if affecting the Holders, are approved by the Majority Holders.
- (j) The Security Agent will not be bound to act upon documents which are not authorized pursuant to the terms of this Agreement.
- (k) The Security Agent may accept communications by facsimile transmission or other electronic means that enable the Security Agent to confirm the identity of the sender and may rely as to the truth of the information contained in such communications.

10.5 Resignation, Removal or Replacement of Security Agent

The Security Agent may resign its agency, duties and powers and be discharged from all further duties and liabilities hereunder by giving to the Company and the Holders 30 days' notice in writing or such shorter notice as the Company may accept as sufficient. The Majority Holders will have power by written notice at any time to remove the Security Agent and to appoint a new Security Agent. In the event of the Security Agent resigning or being removed as aforesaid or being dissolved, becoming bankrupt, going into liquidation or otherwise becoming incapable of acting hereunder, the Majority Holders will forthwith appoint a new Security Agent; failing such appointment by the Majority Holders the retiring Security Agent or any Holder may apply to a Judge of the Supreme Court of Ontario, for the appointment of a new Security Agent; but any new Security Agent so appointed by the Majority Holders or by the Court will be subject to removal as aforesaid by the Holders. On any new appointment the new Security Agent will be vested with the same powers rights, duties and responsibilities as if it had been originally named herein as Security Agent without any further assurance, conveyance, act or deed; but there will be immediately executed, at the expense of the Company, all such conveyances or other instruments as may, in the opinion of counsel, be necessary or advisable for the purpose of assuring the same to the new Security Agent.

10.6 Acceptance of Agency

The Security Agent hereby accepts the appointment as agent for the Holders pursuant to this Agreement and agrees to perform and administer the Security for and on behalf of the Holders upon the terms and conditions herein set forth.

10.7 Authority of Security Agent

Subject to Section 10.1(a), the Security Agent will have the authority to take any action on behalf of the Holders which is, in its opinion, acting reasonably:

- (a) contemplated by this Agreement, any other Loan Document, or the Security;
- (b) not inconsistent with its rights, powers, duties or obligations under this Agreement;
or

- (c) necessary or desirable to exercise its rights and powers and to perform its duties and obligations under this Agreement.

10.8 Indemnification

Without limiting any protection or indemnity of the Security Agent under any other provision of this Agreement, or otherwise at law, the Company and the Holders hereby agree to indemnify and hold harmless the Security Agent from and against any and all liabilities, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements, including reasonable legal or advisor fees and disbursements, or of whatever kind or nature, which may at any time be imposed on, incurred by or asserted against the Security Agent in connection with the performance of its duties and obligations hereunder, other than such liabilities, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements arising by reason of the negligence, wilful misconduct or fraud of the Security Agent. This provision shall survive the resignation or removal of the Security Agent, or the termination of this Agreement. The Security Agent shall not be under any obligation to prosecute or defend any action or suit in respect of the relationship which, in the opinion of its counsel, may involve it in expense or liability, unless the Company and the Holders shall, so often as required, furnish the Security Agent with satisfactory indemnity and funding against such expense or liability.

ARTICLE 11 GENERAL

11.1 Reliance and Non-Merger

All covenants, agreements, representations and warranties of the Company and any other Obligor made in this Agreement, in any other Loan Document, or in any certificate or other document signed by any of its directors or officers and delivered by or on behalf of the Company or any other Obligor pursuant hereto or thereto are material, are deemed to have been relied upon by the Holders, and may be enforced strictly by the Holders, notwithstanding any investigation heretofore and thereafter made by the Holder or counsel to or any employee or other representative of the Holder and shall survive the execution and delivery of this Agreement and the other Loan Documents until the payment in full of all the Obligations. Notwithstanding the foregoing, the covenants, agreements, representations and warranties of the Company contained in Sections 7.1(a) to (i) inclusive shall survive for three (3) years from the date of this Agreement.

11.2 Amendment and Waiver

Where any amendment, waiver, discharge or termination relates to the following matters, the amendment, waiver, discharge or termination requires approval by the Super-Majority Holders:

- (a) any reduction in the rate or amount of any principal, interest or fees or any other amount payable by the Company or any alteration in the currency or mode of calculation or computation thereof;
- (b) any extension of the time for any payments required to be made by the Company;

(c) if to the Security Agent, to the Security Agent at:

AIP Asset Management Inc.
TD North Tower
77 King Street W, Suite 4140
Toronto, ON M5K 1E7

Attention: Jay Bala, Senior Portfolio Manager
E-mail: jay@aipassetmanagement.com

or at such other address as the Security Agent shall have specified to the Company and each Holder in writing.

Notices under this Section 11.3 will be deemed given only when actually received.

Each document, instrument, financial statement, report, notice or other communication delivered in connection with this Agreement shall be in English or accompanied by an English translation thereof.

11.4 Time

Time is of the essence of this Agreement and the other Loan Documents.

11.5 Confidentiality

Each of the Company, the Security Agent and the Holders covenants and agrees to maintain the confidential nature of the terms and conditions of the Loan Documents and any other information disclosed to it pursuant to the terms of the Loan Documents and not to disclose the same by any means or for any purpose, except as follows: (a) to its accountants and professional advisors; (b) to its officers, directors and employees, its Affiliates and their officers, directors and employees, and to each other party to the Loan Documents; (c) as required by applicable law or by judicial or administrative process, provided that the party requiring disclosure shall use its best efforts to limit the extent of the disclosure to the extent permitted by applicable law; or (g) as expressly contemplated under the Loan Documents. In addition, any of the parties may make such other public disclosures of the terms and conditions hereof as, in the opinion of its respective counsel, the party is required by applicable law to make.

11.6 Further Assurances

Whether before or after the occurrence of an Event of Default, the Company shall, and shall cause the other Obligors to, at their own expense do, make, execute or deliver, or cause to be done, made, executed or delivered, all such further acts, things, agreements, documents and instruments in connection with this Agreement and the other Loan Documents as the Majority Holders may request from time to time for the purpose of giving effect to the terms of this Agreement and the other Loan Documents including, without limitation, for the purpose of facilitating the enforcement of the Security, all immediately upon the request of the Majority Holders.

11.7 **Assignment**

This Agreement and the other Loan Documents shall enure to the benefit of and be binding upon the parties hereto and thereto, their respective successors and any permitted assignee of some or all of the parties' rights or obligations under this Agreement and the other Loan Documents as permitted under Section 11.7.

None of the Obligor may assign all or any part of its rights, benefits or obligations under this Agreement or any of the other Loan Documents without the prior written consent of the Majority Holders.

Subject to compliance with all Applicable Law and Securities Laws, any Holder may assign or transfer all or any part of its rights in respect of the Obligations, any Note, this Agreement and any of the other Loan Documents at any time to any other person except as may be specifically prohibited by the terms of this Agreement. Neither the Company nor the Security Agent shall be bound by any such transfer nor obligated to any transferee until notice in writing of such transfer has been provided by the transferor to the Company and the Security Agent, as applicable together with a duly executed form of transfer. Upon receipt of such notice, the Company shall from and after the date of such notice, pay all amounts owing under or in respect of such Notes to the transferee. The transferee of a Note shall be entitled, after the appropriate notice of transfer has been provided to the Company and the Security Agent, and upon compliance with all other conditions in that regard required by this Agreement or by law, to be treated as the owner of such Note free from all equities or rights of set-off or counterclaim between the Company and the transferor or any previous holder of such Note, save in respect of equities of which the Company is required to take notice by statute or by order of a court of competent jurisdiction.

11.8 **Entire Agreement**

This Agreement and the other Loan Documents constitute the entire agreement between the parties pertaining to the subject matter described herein and therein. There are no warranties, conditions or representations (including any that may be implied by statute), and there are no agreements in connection with such subject matter except as specifically set forth or referred to in this Agreement and the other Loan Documents. No reliance is placed on any warranty, representation, opinion, advice or assertion of fact made either prior to, contemporaneously with, or after the entering into of this Agreement and the other Loan Documents, or any amendment or supplement thereto, by any party to this Agreement or any of the other Loan Documents or its directors, officers, partners, employees or agents, where applicable, to any other party to this Agreement or any of the other Loan Documents or its directors, officers, partners, employees or agents, where applicable, except to the extent that the same has been reduced to writing and included as a term of this Agreement or any of the Loan Documents.

11.9 **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

11.10 Attornment

The parties hereto irrevocably submit and attorn to the non-exclusive jurisdiction of the courts of the Province of Ontario for all matters arising out of or in connection with this Agreement and the other Loan Documents.

11.11 Counterparts

This Agreement may be signed in counterparts and each such counterpart will constitute an original document and all of such counterparts, when taken together, will constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile, PDF via email or by other electronic communication will be effective as delivery of a manually executed counterpart of this Agreement.

[Signature page follows.]

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first stated above.

CARL DATA SOLUTIONS INC.

by	<u>“Kevin Ma”</u>	<u>“Greg Johnston”</u>
	Name: Kevin Ma	Greg Johnston
	Title: CFO	CEO

[Remainder of page intentionally left blank.]

**AIP ASSET MANAGEMENT INC., as
Security Agent**

by “Jay Bala”
Name: Jay Bala
Title: Senior Portfolio Manager

**AIP GLOBAL MACRO CLASS, as a
Holder**

by “Jay Bala”
Name: Jay Bala
Title:

**AIP GLOBAL MACRO FUND L.P., as
a Holder**

by “Jay Bala”
Name: Jay Bala
Title: Senior Portfolio Manager

**AIP CANADIAN ENHANCED
INCOME CLASS, as a Holder**

by “Jay Bala”
Name: Jay Bala
Title: Senior Portfolio Manager

**AIP PRIVATE CAPITAL INC., as a
Holder**

by “Alex Kanayev”
Name: Alex Kanayev
Title: Managing Partner

**EXHIBIT 1
FORM OF NOTES**

10% SECURED CONVERTIBLE NOTE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [insert the date that is four months and a day after the distribution date]

**CARL DATA SOLUTIONS INC.
10% SECURED CONVERTIBLE NOTE**

Number: ■ Principal Amount: \$ _____

Issue Date: ■

For value received, Carl Data Solutions Inc. (the "**Issuer**"), having a principal place of business at Suite 700, 510 West Hastings Street, Vancouver, BC V6B 1L8, promises to pay on or before the Maturity Date to ■ (together with its successors and assigns, the "**Holder**"), or any other bona fide holder of this Note, the amount of principal specified above plus the amount of interest specified in Section 1 below, payable in arrears on each Interest Payment Date (as defined below).

This Note is issued under a Note Purchase Agreement dated as of May ■, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the "**Note Purchase Agreement**"), between the Issuer, AIP Asset Management Inc., in its capacity as Security Agent (as defined therein), and [NTD: Insert names of Holders] and any other parties that become Holders from time to time, as holders (together with their successors and assigns, collectively, the "**Holders**"). Unless otherwise defined, all capitalized terms used herein have the meanings specified in the Note Purchase Agreement.

1. Interest. Interest shall accrue on the Principal Amount of this Note from and including the date of issuance until repayment in full. The interest shall accrue from day to day at the applicable Interest Rate, both before and after default, demand, maturity and judgment, and shall be calculated on the basis of the actual number of days elapsed and on the basis of a year of 365 or 366 days, as applicable.

The Notes shall bear interest at rate per annum equal to 10% plus, if an Event of Default has occurred, 12% per annum, while such Event of Default continues (the "**Interest Rate**"). Interest shall be calculated and payable monthly, in advance on the first day of each month (each, an "**Interest Payment Date**") until the entire Principal Amount of this Note has been repaid in full.

2. Payments. All payments made pursuant to this Note (in respect of principal, interest or otherwise) shall be made in full without set-off or counterclaim, and free of and without deduction or withholding for any present or future Taxes, other than Excluded Taxes.

3. Conversion. This Note may be converted into Common Shares of the Issuer in accordance with the terms of the Note Purchase Agreement.

4. Assignments and Transfers. This Note may not be assigned or transferred by the Issuer except in accordance with the Note Purchase Agreement.

5. Note Register. The Security Agent, acting as the agent of the Issuer, shall maintain a register on which it enters the name and address of any transferee of an interest in this Note (each, a "Transferee"), and the commitment, principal amount and stated interest of each such Transferee's interest in the Note (the "Note Register"). The entries in the Note Register shall be conclusive absent manifest error, and both the Holder and the Issuer shall treat each Person whose name is recorded in the Note Register as the owner of the interest transferred to a Transferee for all purposes, notwithstanding any notice to the contrary.

6. Severability. In the event that one or more of the provisions of this Note is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

7. Governing Law. This Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of the Canada applicable therein.

CARL DATA SOLUTIONS INC.

By _____
Name:
Title:

EXHIBIT 2
FORM OF NOTICE OF CONVERSION