

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 27, 2024.**

**AVANT BRANDS INC.**

**10.00% SENIOR UNSECURED CONVERTIBLE DEBENTURE DUE JULY 26, 2028**

**DEBENTURE**

**CERTIFICATE NUMBER: CD-07-01**

**PRINCIPAL AMOUNT: \$3,900,000**

AVANT BRANDS INC., a corporation incorporated under the laws of the Province of British Columbia, Canada (the “**Borrower**”), for value received, hereby acknowledges itself indebted and promises to pay to or to the order of [PERSONAL INFORMATION REDACTED] (hereinafter referred to as the “**Lender**” or the “**Debentureholder**”), the principal amount of three million nine hundred thousand dollars (\$3,900,000) (the “**Principal Amount**”) in lawful money of Canada and promises to pay to, or to the order of, the Lender, in the manner hereinafter provided at the foregoing address of the Lender, or at such other place or places as the Lender may designate by notice in writing to the Borrower, on each Principal Payment Date (as defined herein) with any remaining amount owing hereunder on July 26, 2028 (the “**Maturity Date**”), or such earlier date as the Principal Amount may become due and payable, and to pay interest in cash to the Lender on the Principal Amount outstanding from time to time owing hereunder to the date of payment as hereinafter provided, both before and after maturity or demand, default and judgment.

The Debentureholder has the right, from time to time and at any time prior to 5:00 p.m. (Eastern time) on the earlier of: (i) the Business Day (as defined herein) immediately preceding the Maturity Date, (ii) the Business Day immediately preceding the Mandatory Conversion Date (as defined herein) and (iii) the Business Day prior to any repurchase of the Debenture in accordance with the terms hereof, to convert all or any portion of the outstanding Principal Amount into Common Shares (as defined herein), at a price, with respect to the Principal Amount, equal to the Conversion Price (as defined herein), subject to adjustments in certain events, together with any accrued and unpaid interest owing thereon on the Conversion Date (as defined herein), which shall be paid in cash.

Unless the Lender exercises the Conversion Right (as defined herein) attached to this Debenture, the Borrower exercises the Mandatory Conversion Right (as defined herein) attached to this Debenture or there is any repurchase of the Debenture in accordance with the terms hereof, the Principal Amount owing, or the portion of the Principal Amount which has yet to be converted, together with any accrued and unpaid interest owing thereon and all other amounts now or hereafter payable hereunder (collectively, the “**Obligations**”) shall be due and payable on each Principal Payment Date or Interest Payment Date, as applicable, as set out in this Debenture with any remaining amount owing hereunder on the Maturity Date in accordance with the terms hereof. This Debenture is issued subject to the terms and conditions appended hereto as Schedule A.

[Remainder of page intentionally left blank; Signature page follows]

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

DATED for reference this 26<sup>TH</sup> day of July, 2024.

**AVANT BRANDS INC.**

Per: (signed) "Jeremy Wright"

Jeremy Wright

Chief Financial Officer

*(See terms and conditions attached hereto)*

## Schedule A – Terms and Conditions for 10.00% Senior Unsecured Convertible Debenture

### ARTICLE 1 – INTERPRETATION

#### Section 1.1 Definitions

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

- (1) “**Additional Amounts**” has the meaning attributed thereto in Section 9.1;
- (2) “**Business**” means the business of the Borrower being the production, cultivation, processing, distribution and sale of medical and adult-use Cannabis and Cannabis products in Canada;
- (3) “**Business Day**” means a day other than a Saturday, Sunday or other day on which commercial banks in Vancouver, British Columbia, Canada are authorized by law to close;
- (4) “**Cannabis**” means has the meaning ascribed to such term in the Cannabis Act, and includes: (1) all living or dead material, plants, seeds, plant parts or plant cells from any cannabis species or subspecies (including sativa, indica and ruderalis), including wet and dry material, trichomes, oil and extracts from cannabis (including cannabinoid or terpene extracts from the cannabis plant); and (2) biologically or synthetically synthesized analogs of cannabinoids extracted from the cannabis plant using micro-organisms, including: (a) cannabis and marijuana or marihuana (as such term is defined under applicable law, including the Cannabis Act); and (b) “industrial hemp” (as such term is defined in the Industrial Hemp Regulations issued under the Cannabis Act or other applicable law).
- (5) “**Canadian Securities Laws**” means the *Securities Act* (British Columbia) and the securities laws of any other province or territory of Canada, if applicable, and the rules, regulations and policies of any Canadian securities regulatory authority administering such securities laws, as the same shall be in effect from time to time;
- (6) “**Capital Lease**” means a lease (or other arrangement conveying the right to use) real or personal property, or any combination thereof, with respect to which the obligations or indebtedness thereunder is required to be capitalized and accounted for as capital leases or financing leases in accordance with the accounting standards applicable to such lessee;
- (7) “**Change of Control**” means:
  - (a) any transaction (whether by purchase, merger or otherwise) whereby a Person or Persons acting jointly or in concert (within the meaning of applicable Canadian Securities Laws) directly or indirectly acquires the right to cast, at a general meeting of shareholders of the Borrower, more than 50% of the votes attached to the Common Shares that may be ordinarily cast at a general meeting;
  - (b) the Borrower’s arrangement, amalgamation, consolidation or merger with or into any other Person, or any merger of another Person into the Borrower, unless the holders of voting securities of the Borrower immediately prior to such arrangement, amalgamation, consolidation or merger hold securities representing 50% or more of the voting control or direction in the Borrower or the successor entity upon completion of the arrangement, amalgamation, consolidation or merger; or
  - (c) any conveyance, transfer, sale lease or other disposition of all or substantially all of the Borrower’s and the Borrower’s subsidiaries’ assets and properties, taken as a whole, to another arm’s length Person;
- (8) “**Closing Date**” means July 26, 2024;
- (9) “**Common Shares**” means the common shares in the capital of the Borrower or the common shares of the continuing corporation or other resulting issuer formed as a result of a Merger;

- (10) **“Conversion Date”** has the meaning attributed thereto in Section 4.1;
- (11) **“Conversion Price”** means \$0.10 per Common Share, subject to adjustment in accordance with the terms of the terms hereof;
- (12) **“Conversion Right”** has the meaning attributed thereto in Section 4.1;
- (13) **“Debenture Units”** means the debenture units issued under the Offering, each Debenture Unit consisting of (i) \$1,000 principal amount non-redeemable 10.00% senior unsecured convertible debenture maturing forty-eight (48) months after the Closing Date of the Offering, and (ii) 10,000 transferable common share purchase warrants of the Borrower;
- (14) **“Debentures”** means this 10.00% senior unsecured convertible debenture and any other debentures substantially on the same terms as this debenture issued by the Borrower under the Offering;
- (15) **“Exchange”** means the Toronto Stock Exchange or such other recognized Canadian stock exchange on which the Common Shares are listed and posted for trading;
- (16) **“Event of Default”** has the meaning attributed thereto in Section 7.1;
- (17) **“Interest Payment Date”** means the last day of March, June, September and December in each year commencing on December 31, 2024, as well as the Maturity Date, and the date on which all or any portion of this Debenture is converted;
- (18) **“Issue Date”** has the meaning attributed thereto in Section 4.2(1);
- (19) **“Lien”** means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property of such Person;
- (20) **“Mandatory Conversion Date”** has the meaning attributed thereto in Section 3.4;
- (21) **“Mandatory Conversion Notice”** has the meaning attributed thereto in Section 3.4;
- (22) **“Mandatory Conversion Right”** means the right attached to the Debentures which permits the Borrower to convert the Principal Amount into Common Shares in accordance with Section 3.4;
- (23) **“Maturity Date”** means July 26, 2028;
- (24) **“Merger”** means any transaction (whether by way of consolidation, amalgamation, merger, transfer, sale or lease) whereby all or substantially all of the Borrower’s assets would become the property of any other Person, or, in the case of any such consolidation, amalgamation or merger, of the continuing corporation or other entity resulting therefrom;
- (25) **“Offering”** means the offering of Debenture Units in the aggregate principal amount of up to \$3,900,000, to be issued and sold by the Borrower, as announced in the Borrower’s press release dated July 26, 2024;
- (26) **“Person”** means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof;
- (27) **“Permitted Acquisition”** means, with respect to any Person, any transaction by which such Person acquires the business of, or all or substantially all of the assets of any corporation or other business entity or division thereof or any other Person, whether through purchase of assets, purchase of shares or other equity interests, amalgamation, merger, joint venture or otherwise, but in each case only if:

- (a) no Event of Default is continuing on the date of such acquisition or would occur as a result of such acquisition;
  - (b) the Person or Persons from whom the acquisition is made are at arm's length to such Person;
  - (c) the relevant business is complimentary to, or substantially the same as that carried on by such Person; and
  - (d) the aggregate purchase price for the acquisition (including any direct or indirect payments made to any of the vendors in connection therewith) does not exceed the fair market value of the business or assets being acquired;
- (28) **"Permitted Debt"** means, with respect to the Borrower or its Subsidiaries, any of the following:
- (a) unsecured indebtedness existing at the date hereof;
  - (b) trade indebtedness, obligations and liabilities, income tax payable, accounts payable, governmental duties and charges and normal accruals, and other accrued liabilities incurred in the ordinary course of business;
  - (c) indebtedness owed to any Person (including in respect of letters of credit for the benefit of such Person) providing workers' compensation, health, disability or other employee benefits or property, casualty or liability insurance, pursuant to reimbursement or indemnification obligations to such Person, in each case incurred in the ordinary course of business consistent with past practice or consistent with such indebtedness incurred by similarly situated companies engaged in the same or similar businesses operating in the same or similar locations;
  - (d) indebtedness pursuant to commercial credit cards, stored value cards, purchasing cards, treasury management services, netting services, overdraft protections, cheque drawing services, automated payment services (including depository, overdraft, controlled disbursement, ACH transactions, return items and interstate depository network services), employee credit card programs, cash pooling services and any arrangements or services similar to any of the foregoing and/or otherwise in connection with cash management or similar programs, in each case, incurred in the ordinary course of business, provided that the aggregate amount of such indebtedness shall not exceed \$250,000 at any time;
  - (e) indebtedness representing deferred compensation to directors, officers, consultants or employees of the Borrower incurred in the ordinary course of business consistent with past practice or consistent with such indebtedness incurred by similarly situated companies engaged in the same or similar businesses operating in the same or similar locations;
  - (f) indebtedness consisting of the financing of insurance premiums incurred in the ordinary course of business consistent with past practice or consistent with such indebtedness incurred by similarly situated companies engaged in the same or similar businesses operating in the same or similar locations;
  - (g) indebtedness owing by either a Subsidiary to the Borrower or by a Subsidiary of the Borrower to another Subsidiary of the Borrower;
  - (h) unsecured indebtedness of the Borrower or any of its Subsidiaries in an aggregate principal amount not to exceed \$1,000,000 at any time incurred in the ordinary course of business; or
  - (i) a guarantee or other contingent obligation in respect of any indebtedness permitted under this Debenture; or

- (j) indebtedness incurred in connection with any extension, renewal or refinancing of any of the foregoing provided that the applicable outstanding principal amount is not increased;
- (29) **“Permitted Secured Debt”** means, with respect to the Borrower or its Subsidiaries, any Secured Debt of the Borrower or its Subsidiaries that:
- (a) is existing at the date hereof;
  - (b) is incurred or assumed by the Borrower or its Subsidiaries in connection with the purchase of real or personal property in the ordinary course of the Borrower’s or its Subsidiaries’ business, provided that the applicable Lien extends only to such property and its proceeds, and secures an amount not exceeding the purchase price of such property;
  - (c) is a Capital Lease obligation of the Borrower or its Subsidiaries, including, without limitation, any indebtedness incurred for the purchase or lease of specifically identified equipment, for which a purchase money security interest (as defined in the *Personal Property Security Act* (British Columbia) or comparable legislation of another Canadian jurisdiction) is granted;
  - (d) is incurred or assumed by the Borrower or its Subsidiaries in connection with a Permitted Acquisition; or
  - (e) a guarantee or other contingent obligation in respect of Section 1.1(29)(a) through Section 1.1(29)(d) above.
- (30) **“Permitted Subordinated Debt”** means any and all indebtedness incurred or assumed by the Borrower or its Subsidiaries in respect of which all obligations of payment and performance, together with all security interests or collateral granted as security for payment and performance thereof, are fully postponed and subordinated to the indebtedness owed to the holder of this Debenture, and for greater certainty shall include guarantees or other contingent obligations of the Borrower or of its Subsidiaries for any indebtedness that would otherwise constitute “Permitted Subordinated Debt” for the purpose of this definition;
- (31) **“Principal Payment Date”** means the last day of March, June, September and December in each year commencing on December 31, 2024;
- (32) **“Secured Debt”** means, with respect to any Person, any obligation or indebtedness of any Person that is secured in any manner by any Lien on any real or personal property of such Person;
- (33) **“Subscription Agreement”** means the subscription agreement entered into between the Lender and Borrower dated July 26, 2024 in respect of the purchase and sale of the Debentures;
- (34) **“Subsidiary”** means as to any Person, any corporation or other business entity in which such Person or one or more of its Subsidiaries owns, directly or indirectly, sufficient equity or voting interests to enable it or them (as a group) to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries;
- (35) **“Taxes”** means any present or future income and other taxes, levies, rates, royalties, deductions, withholdings, assessments, fees, dues, duties, imposts and other charges of any nature whatsoever, together with any interest and penalties, additions to tax and other additional amounts, levied, assessed or imposed by any governmental authority;
- (36) **“Threshold Amount”** has the meaning attributed thereto in Section 4.9;

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

(38) “**VWAP**” means the daily volume weighted average trading price of the Common Shares for the applicable period (which must be calculated utilizing days in which the Common Shares actually trade) on the Exchange; and

(39) “**Warrants**” has the meaning given to such term in Section 2.5.

### **Section 1.2 Headings**

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

### **Section 1.3 Currency**

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

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

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

### **Section 1.5 Severability**

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

### **Section 1.6 Entire Agreement**

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

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

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

Subject to the terms and conditions hereof, (i) 6.25% of the Principal Amount outstanding on this Debenture, together with any accrued and unpaid interest owing thereon, shall be repaid by the Borrower to the Lender quarterly in cash, on each Principal Payment Date, and such first payment shall be made on December 31, 2024; and (ii) the remaining Principal Amount outstanding on this Debenture, together with any accrued and unpaid interest owing thereon, shall be repaid by the Borrower to the Lender, on the Maturity Date.

### **Section 2.2 Interest Payable**

The Principal Amount outstanding under this Debenture shall bear interest at the rate of ten percent (10.00%) per annum, calculated and payable quarterly in cash, not in advance, on each Interest Payment Date, and such first payment shall be made on December 31, 2024. Interest shall be computed on the basis of a 360-day year composed

of twelve 30-day months. The December 31, 2024 interest payment will represent accrued and unpaid interest from the Closing Date to December 31, 2024. For greater certainty, such interest shall be payable before, during or after the occurrence of an Event of Default in cash.

### **Section 2.3 Method of Paying of Interest**

The Borrower shall satisfy its obligation to pay interest on the Debenture (including, for certainty, upon the exercise of a Conversion Right or Mandatory Conversion Right hereunder), on each applicable Interest Payment Date, in cash.

### **Section 2.4 Rank**

The Debentures will constitute direct unsecured obligations of the Borrower. Except as prescribed by law, this Debenture and all amounts owing hereunder will rank *pari passu* with each other Debenture in right of payment of unsecured principal and interest (regardless of their actual dates or terms of issue) and, subject to statutory preferred exceptions, *pari passu* with all other present and future unsecured indebtedness of the Borrower.

### **Section 2.5 Warrants**

Upon issuance of this Debenture, the Borrower shall issue to the Debentureholder for each \$1,000 of Principal Amount, warrants to acquire ten thousand (10,000) Common Shares of the Borrower (for a total of thirty-nine million (39,000,000)) warrants (collectively, the “**Warrants**”). Each Warrant shall entitle the holder to acquire one Common Share at an exercise price per Common Share equal to \$0.10 for a period of forty-eight (48) months from the Closing Date, subject to adjustments in certain events. For greater certainty, the issuance of the Warrants to the Debentureholder is a condition of the purchase of the Debentures under the terms of the subscription agreement between the Debentureholder and the Borrower in respect of the Offering.

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

### **Section 3.1 Redemption, Exchange or Conversion if Change of Control**

The Borrower shall notify the Debentureholder of the pending Change of Control or Merger in accordance with Section 3.2 and the Debentureholder shall, in its sole discretion, have the right to require the Borrower to either (i) purchase the Debentures at 105% of the then outstanding Principal Amount thereof plus unpaid interest to the Maturity Date; (ii) if the Change of Control or Merger results in a new issuer, convert the Debenture into a replacement debenture of the new issuer in the aggregate principal amount of 105% of the Principal Amount of the Debenture then outstanding on substantially equivalent terms to those terms contained herein; or (iii) convert the Debentures at the Conversion Price.

### **Section 3.2 Notice of Change of Control**

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

### **Section 3.3 Purchases for Cancellation**

The Borrower will have the right at any time and from time to time to purchase the Debentures in the market, by tender, or by private contract.

### **Section 3.4 Mandatory Conversion Right**

(1) The Borrower shall have the right (the “**Mandatory Conversion Right**”), at any time prior to the Maturity Date, to require the Debentureholder to convert all but not less than all of the Principal Amount outstanding under all



the Debenture issued under the Offering at the Conversion Price if the VWAP of the Common Shares is equal to or greater than 200% of the Conversion Price for a period of twenty (20) consecutive trading days of the Common Shares on the Exchange. For greater certainty, for purposes of the Mandatory Conversion Right trading days shall not include any trading day on which the Common Shares issuable upon conversion of the Debentures would be subject to restrictions on resale in Canada or on the Exchange.

(2) The Mandatory Conversion Right may be exercised by the Borrower by delivering not less than less 30 days' advance written notice (the "**Mandatory Conversion Notice**") to the Debentureholder, provided such notice is given within ten (10) trading days following the end of such twenty (20) trading day period. The Mandatory Conversion Notice shall provide that the Mandatory Conversion Right is being exercised, shall specify the Principal Amount to be converted, shall specify the twenty (20) trading days on the Exchange on which the VWAP of the Common Shares equaled or exceeded 200% of the Conversion Price, shall state the amount of accrued and unpaid interest due and payable by the Borrower to the Lender, and shall set out the date (the "**Mandatory Conversion Date**") on which the conversion shall occur and the amount of accrued and unpaid interest to be paid. The Mandatory Conversion Right shall be deemed to have been effected immediately prior to the close of business on the Mandatory Conversion Date. On the Mandatory Conversion Date, provided the amount of accrued and unpaid interest, have been paid to the Lender this Debenture shall be cancelled. With the Mandatory Conversion Notice, the Borrower shall provide the Lender with its written calculation of the amount of accrued and unpaid interest on the Principal Amount which is the subject of the Mandatory Conversion Right pursuant to the Mandatory Conversion Notice, up to the date of that Mandatory Conversion Notice and a per diem amount thereon. For greater certainty, the Mandatory Conversion Right may only be exercised by the Borrower if the Common Shares issuable upon conversion of the Debentures are not subject to any restrictions on resale in Canada or on the Exchange. The Debentureholder may convert this Debenture in whole or in part into Common Shares at any time prior to 5:00 p.m. (Eastern Time) on the Business Day prior to the Mandatory Conversion Date.

## ARTICLE 4– CONVERSION

### Section 4.1 Conversion Right.

(1) Upon and subject to the terms and conditions hereinafter set forth, the Lender shall have the right (the "**Conversion Right**"), but not the obligation, at any time, and from time to time, up to and including earlier of: (a) the Business Day immediately preceding the Maturity Date; (b) the Business Day immediately preceding the Mandatory Conversion Date; and (c) the Business Day prior to any repurchase of the Debenture in accordance with the terms hereof, to notify the Borrower that it wishes to convert, for no additional consideration, all or any part of the Principal Amount of this Debenture (such amount to be converted being, the "**Converted Debenture Amount**") into that number of fully paid and non-assessable Common Shares that is equal to the Principal Amount of the Debenture converted divided by the Conversion Price in effect on the Issue Date (as hereinafter defined), provided that the Lender must convert the Principal Amount of this Debenture in a minimum amount of \$25,000, unless the principal amount remaining is less than \$25,000 in which case, the entire remaining amount shall be converted. For greater certainty, if the Lender is electing to convert all or a portion of the Principal Amount, then the applicable amount of accrued and unpaid interest on the Principal Amount being converted must be paid in cash by the Borrower up to, but excluding, the applicable date of conversion (the "**Conversion Date**") in accordance with Section 2.2.

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

### Section 4.2 Conversion Procedure

(1) The Conversion Right may be exercised by the Lender by completing and signing the notice of conversion (the "**Conversion Notice**") attached hereto as Schedule B, and delivering the Conversion Notice and this Debenture to the Borrower. The Conversion Notice shall provide that the Conversion Right is being exercised, shall specify the Converted Debenture Amount, and shall set out the date (the "**Issue Date**") on which Common Shares are to be issued upon the exercise of the Conversion Right (such date to be no later than three (3) Business Days after the day on which the Conversion Notice is issued). The conversion shall be deemed to have been effected immediately prior to the close of business on the Issue Date and the Common Shares issuable upon conversion shall be deemed to be issued as fully

paid and non-assessable at such time. On the Issue Date, the required number of Common Shares shall be issued to the Lender. If less than all of the Principal Amount of this Debenture is the subject of the Conversion Right, then on the Issue Date, the Borrower, if requested by the Lender, shall deliver to the Lender a replacement Debenture in the form hereof in the principal amount of the unconverted principal balance hereof, and this Debenture shall be cancelled. If the Conversion Right is being exercised in respect of the entire Principal Amount of this Debenture, this Debenture shall be cancelled. With the Conversion Notice, the Lender shall provide the Borrower with its written calculation of the amount of accrued and unpaid interest on the Converted Debenture Amount pursuant to the Conversion Notice, up to the date of that Conversion Notice and a per diem amount thereon.

### Section 4.3 Adjustment of Conversion Price

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

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

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

- (2) If and whenever at any time prior to the Maturity Date, the Borrower shall fix a record date for the issuance of rights, options or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than forty-five (45) days after such date of issue (such period from the record date to the date of expiry being referred to in this Section 4.3(2) as the “**Rights Period**”), to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for Common Shares) (such subscription price per

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

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

as at the end of the Rights Period.

“**Current Market Price**” of the Common Shares at any date, means the VWAP at which the Common Shares have traded on the Exchange or, if the Common Shares are not listed on any stock exchange, then on the over-the-counter market, for any 20 consecutive trading days ending immediately before such date; provided, however, in the event that at any date the Common Shares are not listed on the Exchange or on the over-the-counter market, the current market price shall be as determined by the directors of the Borrower or such firm of independent chartered accountants as may be selected by the directors of the Borrower, acting reasonably, and in good faith in their sole discretion for these purposes, the weighted average price for any period shall be determined by dividing the aggregate sale prices during such period by the total number of Common Shares sold during such period.

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

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

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

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

If the Lender has exercised its Conversion Right in accordance herewith during the Rights Period, the Lender will, in addition to the Common Shares to which it is otherwise entitled upon such exercise, be entitled to that number of additional Common Shares equal to the result obtained when the difference, if any, between the Conversion Price in effect immediately prior to, and the Conversion Price in effect immediately following the end of such Rights Offering pursuant to this Section 4.3(2), is multiplied by the number of Common Shares received upon the exercise of the Conversion Right during such period, and the resulting product is divided by the Conversion Price as adjusted for such Rights Offering pursuant to this Section 4.3(2); provided that no fractional Common Shares will be issued. Such additional Common Shares will be deemed to have been issued to the Lender immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to the Lender within ten Business Days following the end of the Rights Period.

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

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

- (a) the numerator of which is:
  - (i) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less

- (ii) the aggregate fair market value (as determined by action by the directors of the Borrower, acting reasonably, and, in all cases, subject to the prior approval of the Exchange) to the holders of the Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and
- (b) the denominator of which is the number of Common Shares outstanding on such record date multiplied by the Current Market Price of the Common Shares on such record date.

Any Common Shares owned by or held for the account of the Borrower or its Subsidiaries or affiliate (as defined in the *Securities Act* (British Columbia) of the Borrower) will be deemed not to be outstanding for the purpose of any such computation.

(4) In the case of any reclassification of, or other change in, the outstanding Common Shares pursuant to a Merger, if the Lender elects not to redeem this Debenture in accordance with Section 3.1, the Lender may elect, prior to the effective date of such Merger, to convert any or all of the Principal Amount of this Debenture into Common Shares at the then applicable Conversion Price and otherwise on terms and conditions set out in this Debenture. To exercise such right the Lender must provide a notice in writing to the Borrower no later than seven (7) days prior to the effective date of such Merger, failing which the Lender's right to convert this Debenture as a consequence of such Merger shall cease. If the Lender elects to convert any or all of the Principal Amount of this Debenture, such conversion shall occur immediately prior to the effective date of such Merger. If the Lender elects not to convert any of the Principal Amount of this Debenture, the Conversion Price in effect after the effective date of such Merger shall be increased or decreased, as the case may be, in proportion to any decrease or increase in the number of outstanding Common Shares resulting from such Merger so that the Lender, upon exercising the Conversion Right after the effective date of such Merger, will be entitled to receive the aggregate number of Common Shares or other securities, if any, which the Lender would have been entitled to receive as a result of such Merger if, on the effective date thereof, the Lender had been the registered holder of the number of Common Shares to which the Lender was theretofore entitled upon exercise of the Conversion Right.

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



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

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

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

The Borrower shall not be required to issue fractional Common Shares upon the conversion of the Debenture or any Principal Amount outstanding hereunder pursuant to this Article 4. If any fractional interest in a Common Share, would, except for the provisions of this Section 4.4, be deliverable upon the conversion of any amount hereunder, the number of Common Shares to be issued shall be rounded down to the nearest whole Common Share and no consideration shall be payable for the fractional interest in a Common Share so reduced.

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

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

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

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

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

For all purposes, on the Issue Date the Lender shall be deemed to have become the holder of record of the Common Shares into which the Converted Debenture Amount is converted in accordance with Section 4.2.

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

By its acceptance hereof the Lender acknowledges that this Debenture and the Common Shares issuable upon conversion hereof will be subject to certain resale restrictions under applicable securities laws, and the Lender agrees to comply with all such restrictions and laws. The Lender further acknowledges and agrees that all Common Share certificates will bear the legend substantially in the form set forth on the face page hereof as well as any legends required by the Exchange, provided that such legend shall not be required on Common Share certificates issued at any time following four months plus one day from the Closing Date. The Lender acknowledges that the Borrower will be

required to provide to the applicable securities regulatory authorities the identity and other personal information of the Lender and its principals and the Lender hereby agrees thereto.

#### **Section 4.9 Limitations on Conversion**

Notwithstanding anything to the contrary in this Debenture, in no event (including, for greater certainty, on maturity) shall the Borrower issue, be required to issue or be deemed to have issued a number of Common Shares upon conversion of this Debenture, and the Debentureholder shall not have the right to convert any portion of this Debenture to the extent that after giving effect to such conversion, the Debentureholder would beneficially own or exercise control or direction over, directly or indirectly in excess of 9.99% of the Common Shares outstanding (the “**Threshold Amount**”) immediately after giving effect to such conversion. For greater certainty any conversion for Common Shares in excess of the Threshold Amount shall be null and void and treated as if never made and the applicable portion of the Principal Amount in respect of such conversion shall remain due and payable by the Borrower to the Lender hereunder.

### **ARTICLE 5 – RIGHTS OF DEBENTUREHOLDER**

#### **Section 5.1 Distribution on Dissolution, Etc.**

Subject to applicable law and the rights of any holders of any Permitted Secured Debt or debt subject to statutory preferred exceptions, in each case, ranking rateably or in priority to the Lender, upon any sale, in one transaction or a series of transactions, of all, or substantially all, of the assets of the Borrower or distribution of the assets of the Borrower upon any dissolution or winding-up or total liquidation of the Borrower, whether in bankruptcy, liquidation, re-organization, insolvency, receivership or other similar proceedings or upon an assignment to or for the benefit of creditors of the Borrower or otherwise any payment or distribution of assets of the Borrower, whether in cash, property or security, shall be paid or delivered by the trustee in bankruptcy, receiver, assignee of or for the benefit of creditors or other liquidating agent of the Borrower making such payment or distribution, directly to the holders of the Debentures and the holders (or their representatives) of other unsecured indebtedness of the Borrower, to the extent necessary, to pay obligations owing pursuant to the Debentures and such unsecured indebtedness.

#### **Section 5.2 Certificate Regarding Creditors**

Upon any payment or distribution of assets of the Borrower referred to in this Section 5.2, the Debentureholder shall be entitled to rely upon a certificate of the trustee in bankruptcy, receiver, assignee of or for benefit of creditors or other liquidating agent of the Borrower making such payment or distribution, delivered to the Debentureholder, for the purpose of ascertaining the persons entitled to participate in such distribution, and other indebtedness of the Borrower, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Section 5.2.

#### **Section 5.3 Rights of Debentureholder Reserved**

Nothing contained in this Article 5 or elsewhere in this Debenture is intended to or shall impair, as between the Borrower and the Debentureholder, the obligation of the Borrower, which is absolute and unconditional, to pay to the Debentureholder the Principal Amount and interest thereon, as and when the same shall become due and payable in accordance with their terms, nor shall anything herein prevent the Debentureholder from exercising all remedies otherwise permitted by applicable law upon default under this Debenture.

#### **Section 5.4 Payment of Debenture Permitted**

Nothing contained in this Debenture shall:

- (a) prevent the Borrower from making payments of the Principal Amount, interest and other amounts to the Debentureholder under this Debenture as herein provided;

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

### **Section 5.5 Debentures to Rank *Pari Passu***

The Debentures issued by the Borrower, once issued and granted, rank *pari passu* with each other and each Debentureholder shall be equally and proportionately entitled to the benefits hereof as if all of the Debentures had been issued, granted and negotiated simultaneously.

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

### **Section 6.1 Positive Covenants**

The Borrower covenants and agrees that:

- (1) **Maintain Corporate Existence.** Each of the Borrower and its Subsidiaries shall maintain its corporate existence, and preserve its rights, powers, licenses and privileges which are necessary or material to the conduct of its business, and not materially change the nature of its business;
- (2) **Compliance with Laws.** Each of the Borrower and its Subsidiaries shall comply in all material respects with all applicable laws, rules, governmental restrictions and regulations;
- (3) **Maintain Books and Records.** The Borrower shall, and shall cause each of its Subsidiaries to, keep adequate and accurate records and books of account in which complete entries will be made reflecting all financial transactions and prepare its financial statements in accordance with generally accepted accounting principles;
- (4) **Payment of Taxes.** Each of the Borrower and its Subsidiaries shall pay and discharge promptly all Taxes assessed or imposed upon it or its property as and when the same become due and payable save and except where it contests in good faith the validity thereof by proper legal proceedings or it has agreed upon alternative arrangements with a governmental authority;
- (5) **Payment of Obligations.** The Borrower shall pay all principal, interest and other amounts owing to the Lender hereunder promptly when due;
- (6) **Performance of Covenants.** The Borrower shall promptly perform and satisfy all covenants and obligations to be performed by it under this Debenture;
- (7) **Insurance.** Each of the Borrower and its Subsidiaries shall maintain insurance with respect to its properties and business against such casualties and contingencies, of such types, on such terms and in such amounts as is customary in the case of entities engaged in the same or a similar business and similarly situated;
- (8) **Maintain Listing.** The Borrower shall use reasonable commercial efforts to maintain the listing of the Common Shares on the Toronto Stock Exchange and to maintain the Borrower's status as a "reporting issuer" not in default of the requirements of Canadian Securities Laws; and
- (9) **Notice of Event of Default.** The Borrower shall promptly, and in any event within seven (7) Business Days after a responsible officer of the Borrower becoming aware, give notice to the Lender of the existence of any Event of Default.



## Section 6.2 Negative Covenants

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

- (1) **Indebtedness.** Except for Debentures issued pursuant to the Offering, the Borrower shall not, and shall not permit its Subsidiaries to, assume any indebtedness other than (i) Permitted Debt; (ii) Permitted Secured Debt; or (iii) Permitted Subordinated Debt, provided that such Permitted Subordinated Debt shall be subject to the prior written consent of the Lender not to be unreasonably withheld;
- (2) **Encumbrances.** The Borrower shall not, and shall not permit its Subsidiaries to, create, assume or permit to exist any Lien on any assets or property, other than (i) such Liens as existing on the date hereof, (ii) Liens imposed by any governmental authority for any Taxes not yet due and delinquent or which are being contested in good faith, (iii) Liens granted to secure Permitted Secured Debt and Permitted Subordinated Debt, (iv) pledges or deposits made in the ordinary course of business in connection with bids, tenders, leases or contracts or to comply with the requirements of any legislation or regulation applicable to the Borrower or its Subsidiaries or their business or assets, provided the applicable Lien extends only to such pledges or deposits, (v) the rights reserved to or vested in municipalities or governmental or other public authorities or agencies by statutory provisions or by the terms of leases, licenses, franchises, grants or permits, to terminate the leases, licenses, franchises, grants or permits or to require annual or other periodic payments as a condition of the continuance thereof, but only to the extent that same does not in the aggregate materially impair the value, use, development, management, ownership or operation of the property subject thereto and do not materially adversely affect the marketability of the such property, (vi) Liens that are contractual rights of set-off relating to the establishment of depository relations with banks not given in connection with the issuance of indebtedness, (vii) judgment Liens but only for a period not longer than sixty (60) days after the creation of such Liens or, if a stay of execution has been obtained, for a period not longer than sixty (60) days after the expiration of such stay, but only to the extent that failure to pay such judgments would not otherwise constitute an Event of Default, (viii) Liens on goods in the possession of customs authorities in favour of such customs authorities which secure payment of customs duties in connection with the importation of goods, provided that the applicable Lien extends only to such goods, and (ix) such other Liens as agreed to in writing by the Lender acting reasonably in accordance with this Debenture;
- (3) **Distributions.** The Borrower shall not declare, pay or make any dividend or other distribution on any shares in the capital of the Borrower or authorize the repurchase of any shares in the capital of the Borrower other than in connection with a normal course issuer bid conducted by the Borrower;
- (4) **Guarantees.** The Borrower shall not become liable under any guarantees or otherwise become a surety for the indebtedness of another Person, other than (i) in the ordinary course of business, or (ii) in connection with Permitted Debt, Permitted Secured Debt or Permitted Subordinated Debt;
- (5) **Related Party Transactions.** The Borrower shall not enter into any contract or transaction with any related party except for (i) the purchase and/or sale of goods and/or services at fair market value; (ii) the issuance of securities of the Borrower on the same terms as offered to non-related parties; (iii) amendments to the terms of previously issued securities that are approved by the Exchange; (iv) internal reorganizations that are not otherwise prohibited hereunder; (v) providing equity-based compensation to employees, officers or directors, or persons occupying similar roles in the ordinary course of business; and (vi) other transactions between the Borrower and its Subsidiaries in the ordinary course of business;
- (6) **Dispositions.** Subject to Section 6.2(9) (if applicable), none of the Borrower or any of its Subsidiaries shall sell, transfer or otherwise dispose of any property (including shares of Subsidiaries), other than:
  - (a) obsolete or worn-out property no longer used in the Business;
  - (b) inventory, receivables or other property sold or disposed of in the ordinary course of business at fair market value; or

- (c) property (including shares of Subsidiaries) sold or disposed of for fair market value to Persons at arm's length to the Borrower provided that (i) no Event of Default is continuing on the date of such sale or would occur as a result of such sale and (ii) the cash component of the aggregate proceeds of such sale is not less than 75% of such proceeds;

The Borrower shall not, and shall not permit its Subsidiaries to, sell, transfer or otherwise dispose of its equity interests in either 3PL Ventures Inc. or The Flowr Group (Okanagan) Inc.

For greater certainty, this Section 6.2(6) shall not in any way restrict the Borrower from (A) issuing Common Shares or securities convertible into Common Shares or (B) incurring or assuming Permitted Secured Debt, in either case at any time and from time to time after the date hereof;

(7) **Change in Nature of Business.** The Borrower shall not, nor will it permit any of its Subsidiaries to, engage to any material respect in any lines of business other than the Business conducted by the Borrower and its Subsidiaries at the date hereof;

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

- (a) investments made prior to the date hereof, and any roll-over, renewal or extension thereof;
- (b) investments in Subsidiaries of the Borrower and investments in entities in which Subsidiaries of the Borrower are a general or limited partner;
- (c) deposit accounts with and certificates of deposit and other instruments issued by banks and other deposit taking institutions;
- (d) obligations of or guaranteed by the governments of Canada, the United States of America or any province, territory or state thereof;
- (e) security deposits with utilities, governmental authorities and other like Persons in the ordinary course of business; and
- (f) Permitted Acquisitions; and

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

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

## ARTICLE 7 – EVENTS OF DEFAULT

### Section 7.1 Events of Default

- (1) Any of the following shall constitute an Event of Default under this Debenture (each an “**Event of Default**”):
- (a) the Principal Amount owing hereunder shall not be paid when due;

- (b) if the Borrower fails to pay when due any interest or other amount owing by the Borrower to the Lender hereunder within seven (7) days of being due;
- (c) if the Borrower breaches any representation contained herein, fails to make any payment or to observe, perform or comply with any term, covenant, condition or obligation of the Borrower contained herein or is otherwise in default of any of the provisions contained herein (other than referred in subparagraphs (a) and (b) of this Section 7.1) and such default, if capable of being remedied, is not remedied within thirty (30) days after the Borrower receives written notice of such default from the Lender;
- (d) the Borrower defaults in the performance of or compliance with any material covenant, condition or term in the Subscription Agreement and such default remains unremedied for a period of thirty (30) Business Days after Borrower receives written notice of such default from the Lender;
- (e) if any representation or warranty of the Borrower or the Subsidiaries in this Debenture or the Subscription Agreement proves to be untrue in any material respect as at such time as such representation and warranty was made by the Borrower or the Subsidiaries and such default remains unremedied for a period of thirty (30) Business Days after Borrower receives written notice of such default from the Lender;
- (f) if the Borrower shall generally fail to pay, or admit in writing its inability or unwillingness to pay, debts as they become due or if a decree or order of a court having jurisdiction is entered adjudging the Borrower a bankrupt or insolvent;
- (g) if the Borrower shall apply for, consent to or acquiesce in the appointment of a trustee, receiver, or other custodian for the Borrower or for all or substantially all of the property thereof, or make a general assignment for the benefit of creditors;
- (h) if the Borrower shall in the absence of such application, consent or acquiescence, become subject to the appointment of a trustee, receiver, or other custodian for the Borrower or for all or substantially all of the property thereof, or have a distress, execution, attachment, sequestration or other legal process levied or enforced on or against all or substantially all of the property of the Borrower;
- (i) if the Borrower shall permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Borrower and, if any such case or proceeding is not commenced by the Borrower, such case or proceeding, if contested by the Borrower is not dismissed within sixty (60) days;
- (j) any notes, debentures, bonds or other indebtedness for money borrowed (excluding amounts outstanding under this Debenture) having an aggregate principal amount of at least \$500,000 (or its equivalent in any other currency or currencies determined at the then current exchange rate) or more (hereinafter called "**Indebtedness**") of the Borrower shall become prematurely repayable following default, or steps are taken to enforce any security therefor, or the Borrower defaults in the repayment of any such Indebtedness at the maturity thereof or (in the case of Indebtedness due on demand) on demand, or, in either case, at the expiration of any applicable grace period therefor, (if any) or any guarantee of or indemnity in respect of any Indebtedness of others given by the Borrower shall not be honored when due and called upon; or
- (k) other than as permitted hereunder, the Borrower extends or maintains outstanding any loans, advances, guarantees, (direct or indirect) or other financial support to any insider (as defined in the *Securities Act* (British Columbia) in excess of \$200,000.

(2) If an Event of Default described in Section 7.1(1)(f), Section 7.1(1)(g), Section 7.1(1)(h), or Section 7.1(1)(i), shall occur and be continuing, the entire unpaid Principal Amount of and accrued and unpaid interest

on this Debenture shall become immediately due and payable without any declaration or other act on the part of the Lender. Immediately upon the occurrence and continuance of any Event of Default described in Section 7.1(1)(a), Section 7.1(1)(b), Section 7.1(1)(c), Section 7.1(1)(d), Section 7.1(1)(e), Section 7.1(1)(j) or Section 7.1(1)(k), the Lender, upon notice in writing to the Borrower, may proceed to protect, enforce, exercise and pursue any and all rights and remedies available to the Lender under this Debenture, or at law or in equity.

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

### **Section 7.2 Waiver of Default**

Upon the occurrence and continuance of any Event of Default hereunder the Lender shall have the power to waive any Event of Default and the Lender shall thereupon be deemed to have waived the Event of Default upon such terms and conditions as shall be prescribed in such waiver.

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

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

## **ARTICLE 9 – GENERAL**

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

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

- (a) within the time period for payment permitted by applicable law, pay to the appropriate governmental body the full amount of such Taxes and any additional Taxes in respect of the payment required under Section 9.1(b) hereof and make such reports and filings in connection therewith in the manner required by applicable law; and
- (b) pay to the Lender an additional amount (the “Additional Amounts”) which (after deduction of all Taxes incurred by reason of the payment or receipt of such Additional Amount) will be sufficient to yield to the Lender the full amount which would have been received by it had no deduction or withholding been made.

However, the foregoing obligations to pay Additional Amounts do not apply to:

- (c) any Canadian withholding Taxes imposed on a payment to a Lender or beneficial owner of the Debenture (or the right to receive interest payable on the Debenture) by reason of the Borrower not dealing at arm’s length (within the meaning of the Income Tax Act (Canada)) with such Lender or beneficial owner of Debenture (or the right to receive interest payable on the Debenture) at the time of the payment;

- (d) any Canadian withholding Taxes imposed on a payment to a Lender or beneficial owner of the Debenture by reason of such Lender or beneficial owner being a “specified shareholder” of the Borrower (as defined in subsection 18(5) of the Income Tax Act (Canada)) or by reason of such Lender or beneficial owner not dealing at arm’s length with a specified shareholder of the Borrower;
- (e) any withholding Taxes imposed on a payment to a Lender, former Lender or beneficial owner of Debenture by reason of such Lender’s, former Lender’s or beneficial owner’s failure to comply with any certification, identification, information, documentation or other reporting requirement if compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or a reduction in the rate of deduction or withholding of, such Taxes; or
- (f) Taxes imposed on or measured by net income or net profits (however denominated), franchise Taxes, and branch profits Taxes, in each case (i) imposed as a result of such Lender being organized under the laws of, or having its principal office, or in the case of any Lender, its applicable lending office, located in the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) Taxes imposed as a result of a present or former connection between such Lender and the jurisdiction imposing such Tax.

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

## Section 9.2 Notice

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

- (a) if to the Borrower:

Avant Brands Inc.  
1632 Dickson Ave, Suite 335  
Kelowna, British Columbia V1Y 7T2  
Canada

Attention: Jeremy Wright  
Email: **[PERSONAL INFORMATION REDACTED]**

with a copy to:

Cassels Brock & Blackwell LLP  
Suite 3200, Bay Adelaide Centre – North Tower  
40 Temperance Street  
Toronto, Ontario M5H 0B4  
Canada

Attention: Jonathan Sherman  
Email: jsherman@cassels.com

(b) if to the Lender:

**[PERSONAL INFORMATION REDACTED]**

Attention: **[PERSONAL INFORMATION REDACTED]**

E-mail: **[PERSONAL INFORMATION REDACTED]**

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

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

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

### **Section 9.4 Amendments**

This Debenture may not be amended or otherwise modified except by an instrument in writing executed by the Borrower and the Lender. Each amendment to this Debenture shall be subject to the prior written approval of the Exchange. Any amendment or waiver effected in accordance with this Debenture will be binding on the Lender, each future holder of the Debenture and the Borrower.

### **Section 9.5 Waivers**

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

### **Section 9.6 Registration of Debentures**

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

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

No transfer of this Debenture shall be valid unless made in accordance with applicable laws, including Canadian Securities Laws. If the Lender intends to transfer this Debenture or any portion thereof, it shall deliver to the Borrower the transfer form attached to this Debenture as Schedule C, duly executed by the Lender. Upon

compliance with the foregoing conditions and the surrender by the Lender of this Debenture, the Borrower shall execute and deliver to the applicable transferee a new Debenture registered in the name of the transferee. If less than the full Principal Amount of this Debenture is transferred, the Lender shall be entitled to receive, in the same manner, a new Debenture certificate registered in its name evidencing the portion of the Principal Amount of this Debenture not so transferred. Prior to registration of any transfer of this Debenture, the Lender and the applicable transferee shall be required to provide the Borrower with necessary information and documents, including certificates and statutory declarations, as may be required to be filed under applicable laws.

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

If the Lender exercises all conversion rights attached to this Debenture pursuant to Article 4 hereof or if the Borrower pays all of the Obligations in full to the Lender, the Lender shall release this Debenture and the Borrower shall be, and shall be deemed to have, discharged of all its obligations under this Debenture. The Lender shall then, at the request of the Borrower execute and deliver all such releases and further assurances as may be reasonably required in this regard.

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

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

#### **Section 9.10 Time**

Time shall be of the essence of this Debenture.

#### **Section 9.11 Governing Law**

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

#### **Section 9.12 Further Assurances**

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

**Schedule B - Conversion Notice**

**TO: AVANT BRANDS INC. (the "Borrower")**

Pursuant to the 10.00% Senior Unsecured Convertible Debenture (the "**Debenture**") of the Borrower issued to the undersigned on July 26, 2024, the undersigned hereby notifies you that \$\_\_\_\_\_ of the principal amount outstanding under the Debenture shall be converted into Common Shares of the Borrower all in accordance with the terms of the Debenture on \_\_\_\_\_, 20\_\_\_\_. All capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Debenture.

The undersigned:

- A. represents and warrants that, after giving effect to the issuance of the Common Shares pursuant hereto, the Common Shares beneficially owned, or over which control or direction is exercised, by the undersigned and parties acting in combination or in concert with the undersigned will not exceed the Threshold Amount;
- B. represents and warrants that, as of the date of this Conversion Notice, the undersigned and parties acting in combination or in concert with the undersigned beneficially own, or have control or direction over, \_\_\_\_\_ Common Shares;
- C. certifies that the undersigned has made all reasonable inquiries to ensure that the information provided in this Conversion Notice is accurate;
- D. acknowledges that the Borrower may refuse, in whole or in part, the conversion contemplated hereby if it may result in the undersigned and parties acting in combination or in concert with the undersigned owning more than the Threshold Amount; and
- E. acknowledges that the undersigned has read and understood Section 4.9 of the Debenture.

The certificates representing the Common Shares to be issued shall be registered as follows:

Name	Address for Delivery	# of Common Shares

\_\_\_\_\_  
(Print name as name is to appear on Share Certificate)

DATED this \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_.

[NAME]

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



**FORM OF VERIFICATION CERTIFICATE**

\_\_\_\_\_, being [**the transfer agent of the Common Shares / a senior officer of the Borrower**] (circle one), certifies that I have verified the information provided in the Conversion Notice (including the number of Common Shares held by the undersigned and parties acting in combination or in concert with the undersigned as of the date of the Conversion Notice) and that, to be best of my knowledge, such information is accurate.

VERIFIED AT \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_.

**[VERIFIER]**

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

**Schedule C - Form of Transfer**

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

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

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

\_\_\_\_\_

(the “**Transferee**”), of \$\_\_\_\_\_ principal amount of 10.00% Senior Unsecured Senior Convertible Debenture of AVANT BRANDS INC. issued on July 26, 2024, registered in the name of the undersigned on the register of Debentures represented by the attached Debenture, and irrevocably appoints \_\_\_\_\_ as the attorney of the undersigned to transfer to the Transferee the said principal amount of the Debenture on the books or register of transfer, with full power of substitution.

DATED this \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_.

**[NAME]**

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

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