

SECURITY AGREEMENT¹

Between: **MODERN TECHNOLOGIES INC.**, a corporation incorporated under the *Canada Business Corporations Act*, having its registered office at 111, Avenue of the Innovation, Town of the Future, Province of New Brunswick, Canada C7C 7C7 and its place of central administration at 222 Gold Avenue, Diamond City, Province of Quebec, Canada D8D 8D8

(the “**Grantor**”)

And: **BANK OF THE WEALTH**, a bank constituted under the *Bank Act* (Canada), having a branch at 555 Bank Street, Diamond City, Province of Quebec, Canada X1Y 2Z2

(the “**Creditor**”)

Recitals

- A. The Creditor has agreed to make available to the Grantor credit facilities pursuant to a credit agreement dated 15 March 2017².
- B. The execution of this agreement is a condition to the extension of credit by the Creditor to the Grantor under that credit agreement.

1. Definitions

In this agreement:

- (a) “Credit Agreement” means the credit agreement referred to in Recital A, as same may be amended, supplemented or restated from time to time;
- (b) “Encumbered Assets” has the meaning given to that term in section 2.1 below;
- (c) “Event of Default” means (i) any event that constitutes an “event of default” under the Credit Agreement, and (ii) any failure by the Grantor to comply with any of its obligations under this agreement;
- (d) “Obligations” means all present and future obligations of the Grantor to the Creditor under or contemplated by the Credit Agreement and this agreement;
- (e) Each of the following terms has the meaning given to it in the Model Law: “bank account”, “control agreement”, “debtor of the receivable”, “equipment”, “inventory”, “proceeds” and “product”.

¹ This security agreement assumes that the Model Law is in effect in the jurisdiction whose law governs the agreement (see section 8 below) and in all (or some) States (or territorial units of these States) whose laws govern the creation, effectiveness against third parties and priority of the security right.

² The term “credit agreement” is used as a generic term to describe the agreement under which credit may be extended by the Creditor. Other terms may indeed be used (e.g. loan agreement or promissory note) depending on the nature of the credit transaction or local practices.

2. Grant of the security right and secured obligations

2.1 Grant of the security right

The Grantor grants to the Creditor a security right³ in all of the Grantor's present and future movable assets within each of the following categories (the "Encumbered Assets")⁴:

- (a) Inventory;
- (b) Receivables;
- (c) Equipment;
- (d) Funds credited to a bank account⁵;
- (e) Documents of title⁶ (whether negotiable or not), including without limitation bills of lading and warehouse receipts;
- (f) Negotiable instruments⁷, including without limitation bills of exchange, cheques and promissory notes;
- (g) To the extent not listed above, all proceeds and products of all of the foregoing.

2.2 Secured Obligations

The security right hereby granted secures all Obligations⁸.

3. Representations and warranties⁹

The Grantor represents and warrants to the Creditor that:

³ The term "security right" is defined in article 2(kk) of the Model Law but is not included in the list of Section 1(e) because it is not used here as a defined term. The term will however be construed in accordance with Section 8 of this agreement (Governing law).

⁴ Articles 6, 8 and 9 of the Model Law recognize that a security right may be granted in all present and future movable assets of a generic category and that the description of the encumbered assets in the security agreement may be made in the same manner.

⁵ This expression is not strictly speaking defined in the Model Law but funds credited to a bank account are recognized as a distinct category of assets. See articles 15, 25, 46, 69 and 97 of the Model Law.

⁶ The term is not defined in the Model Law but the latter recognizes negotiable documents as a distinct category of assets (see article 2(II) - definition of tangible assets).

⁷ The term is not defined in the Model Law but the latter recognizes negotiable instruments as a distinct category of assets (see article 2(II) - definition of tangible assets).

⁸ Article 9 of the Model Law recognizes that the secured obligations may be described by referring to the agreement under which they arise.

⁹ This security agreement only includes representations on facts that permit a secured creditor to identify the jurisdictions whose laws will apply to the creation, effectiveness against third parties and priority of a security right. Among other things, the factual information contained in this section will permit the secured creditor to determine where a registration needs to be made.

3.1 Location of certain Encumbered Assets

- (a) The inventory and the equipment of the Grantor are and will be held by the Grantor at all times in the provinces of New Brunswick and Quebec and, unless the Grantor notifies the Creditor of a change, at the addresses listed in the Annex to this agreement.
- (b) The billing addresses of the debtors of the receivables owed or to be owed to the Grantor are and will be at all times in Canada and the United States and, unless the Grantor notifies the Creditor of a change, in the jurisdictions listed in the Annex to this agreement.
- (c) The bank accounts of the Grantor are and will be held at all times at branches of banks in the provinces of New-Brunswick and Quebec, and, unless the Grantor notifies the Creditor of a change, at the addresses listed in the Annex to this agreement. The account agreements relating to these bank accounts are and will be governed by the law of the province in which the applicable branch is located and do not and will not refer to another law for matters relevant to this agreement¹⁰.

3.2 Location and name of the Grantor

- (a) The registered office and the place of central administration of the Grantor are and will be located at all times at the addresses specified on the first page of this agreement.
- (b) The Grantor's exact name and jurisdiction of incorporation are as specified on the first page of this agreement. The Grantor will not change its jurisdiction of incorporation without the prior written consent of the Creditor and will not change its name without giving to Creditor a 30-day prior notice of the change.

4. Authorizations relating to the Encumbered Assets

4.1 Registrations

The Grantor authorizes the Creditor to register any notice and take any other action necessary or useful to make the Creditor's security right effective against third parties¹¹.

4.2 Inspection and copies

- (a) The Creditor may inspect the Encumbered Assets and the documents or records evidencing same, upon giving prior reasonable notice to the Grantor.
- (b) At the request of the Creditor, the Grantor will furnish to the Creditor copies of the invoices, contracts and other documents evidencing its receivables.

¹⁰ This is to ensure the identification of the applicable law under the conflict rules of article 97 of the Model Law.

¹¹ This authorization is required under article 2 of the Model Registry Provisions of Chapter IV of the Model Law.

4.3 Dealings with Encumbered Assets

- (a) Until the Creditor notifies the Grantor that an Event of Default has occurred, the Grantor may sell, lease or otherwise dispose of its inventory and documents of title, collect its receivables and negotiable instruments and dispose of worn-out or obsolete equipment, in each case, in the ordinary course of its business.
- (b) Except as permitted by paragraph (a), the Grantor will not sell, lease or otherwise dispose of the Encumbered Assets¹².
- (c) The Creditor may at any time notify the debtors of the Grantor's receivables of the existence of its security right. However, a notification given prior to the occurrence of an Event of Default will authorize the debtors to make their payments to the Grantor until otherwise instructed by the Creditor¹³.

5. Covenants relating to the Encumbered Assets

5.1 Movable assets

The Grantor undertakes that the Encumbered Assets will remain movable assets at all times and will not be attached to immovable property.

5.2 Effectiveness of the security right

The Grantor will take all actions and execute all documents as are reasonably required by the Creditor for the Creditor's security right to be at all times enforceable and effective against third parties in all jurisdictions where the Encumbered Assets may be located or where the security right may be enforced.

5.3 Bank accounts

The Grantor will take all steps required for the Creditor's security right to be made effective against parties through a control agreement with respect to all funds credited to a bank account held with a bank other than the Creditor¹⁴.

5.4 Reimbursement of expenses

The Grantor will reimburse the Creditor upon demand for all costs, fees and other expenses incurred by the Creditor in the exercise of its rights under this agreement (including without limitation in the enforcement of its security right), with interest at annual rate of [●] %.

¹² This prohibition is a contractual obligation and is not binding upon third parties. For example, a third party who purchases an encumbered asset may acquire it free of the security right in certain circumstances. See for example article 34 of the Model Law.

¹³ This paragraph is in line with the scenario contemplated by article 63(2) of the Model Law.

¹⁴ This method is provided in article 25(b) of the Model Law. If the bank accounts are with the Creditor, then the Creditor will benefit from automatic third-party effectiveness (see article 25(a)).

6. Enforcement¹⁵

6.1 Rights after an Event of Default¹⁶

After the occurrence of an Event of Default and to the extent same is continuing:

- (a) the Creditor may enforce its security right and exercise all rights of a secured creditor under the Model Law and any other applicable law;
- (b) the Creditor may also, subject to any mandatory provision of applicable law,
 - (i) take possession, use, operate, administer and sell, lease or otherwise dispose of any of the Encumbered Assets, in each case, on terms and conditions it deems appropriate;
 - (ii) collect the Grantor's receivables and negotiable instruments, compromise or transact with the obligors of these receivables and instruments, and grant discharges to them; and
 - (iii) take all other actions necessary or useful for the purpose of realizing on the Encumbered Assets, including without limitation completing the manufacture of inventory and purchasing raw materials.

6.2 Access to the Grantor's premises

The Grantor grants to the Creditor the right to enter into and use the premises where the Encumbered Assets are located for the purposes of the exercise of the Creditor's enforcement rights¹⁷.

6.3 Manner of enforcement

The enforcement rights provided in this Article 6 may be exercised on all of the Encumbered Assets taken as a whole or separately in respect of any part of them.

7. General Provisions

7.1 Additional and continuing security

The security right created by this agreement is in addition to (and not in substitution for) any other security held by the Creditor and is a continuing security that will subsist notwithstanding the payment from time to time, in whole or in part, of any of the Obligations.

7.2 Collections

Any sum collected by the Creditor from the Encumbered Assets prior to all the Obligations becoming due may be held by the Creditor as Encumbered Assets.

¹⁵ Enforcement is dealt with in Chapter VII of the Model Law. Section 6 uses the term "rights", instead of remedies, because the latter term is not used in the Model Law.

¹⁶ Under this section, the secured creditor may take possession and sell encumbered assets without court intervention as contemplated by articles 77 and 78 of the Model Law.

¹⁷ This is a personal obligation of the Grantor and may not necessarily be enforceable against the owner of premises leased to the Grantor without the consent of the owner.

7.3 Other recourses

The exercise by the Creditor of any right will not preclude the Creditor from exercising any other right provided in this agreement or by law, and all the rights of the Creditor are cumulative and not alternative. The Creditor may enforce its security right without being required to exercise any recourse against any person liable for the payment of the Obligations or to realize on any other security.

7.4 Inconsistency with the Credit Agreement

In the event of any conflict or inconsistency between the provisions of this agreement and the provisions of the Credit Agreement, the provisions of the Credit Agreement will prevail.

8. Governing Law

This agreement will be governed by and construed in accordance with the laws of the Province of New Brunswick and the federal laws of Canada applicable in that province. The provisions of this agreement must also be interpreted in order to give effect to the intent of the parties that the Creditor's security right be valid and effective in all jurisdictions where the Encumbered Assets may be located and where the rights of the Creditor may have to be enforced.

9. Notices

Any notice by a party to the other must be in writing and given in accordance with the notice provisions of the Credit Agreement.

10. Counterparts and signatures

This agreement may be executed in any number of counterparts and by each party in separate counterparts and any full set of these separate counterparts will constitute an original copy of this agreement. Delivery of an executed counterpart of a signature page to this agreement by telecopier or by electronic mail will be as effective as delivery of a manually executed counterpart of this agreement.

SIGNED by the parties as of 15 March 2017.

MODERN TECHNOLOGIES INC.

BANK OF THE WEALTH

Per: _____

Per: _____