

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS  
SECURITY MUST NOT TRADE THE SECURITY BEFORE OCTOBER 15, 2023**

**SCR-SIBELCO N.V.**

(the “**Creditor**”)

- and -

**AVALON ADVANCED MATERIALS INC.**

(the “**Company**”)

**June 14, 2023**

---

**CONVERTIBLE SECURED DEBENTURE  
DUE ON JUNE 14, 2025**

---

## CONVERTIBLE SECURED DEBENTURE

Effective as of June 14, 2023 (the “**Effective Date**”)

### **ARTICLE ONE** **INTERPRETATION**

#### 1.1 **Definitions.**

As used in this Debenture, including the Schedules and Exhibits hereto (if any), unless otherwise defined or unless the context otherwise requires the following terms have the following respective meanings:

- (a) “**Affiliates**” has the meaning assigned to such term in National Instrument 45-106 – *Prospectus Exemptions of the Canadian Securities Administrators*;
- (b) “**Applicable Law**” means (a) any domestic or foreign statute, law (including common and civil law), treaty, code, ordinance, rule, regulation or by-law (zoning or otherwise); (b) any judgement, order, writ, injunction, decision, ruling, decree or award; (c) any regulatory policy, practice, protocol, guideline or directive; or (d) any franchise, licence, qualification, authorization, consent, exemption, waiver, right, permit or other approval, in each case, of any Governmental Authority and having the force of law, binding on or affecting the Party referred to in the context in which the term is used or binding on or affecting the property of such Party, all of the foregoing as may exist as of the Effective Date or as may be implemented, revised or modified from time to time after the Effective Date;
- (c) “**Business Day**” means any day of the year, other than a Saturday, Sunday, legal holiday or any day on which banking institutions are closed in Toronto, Ontario or Brussels, Belgium;
- (d) “**Change of Control**” means (a) any Person or group of Persons, acting jointly or in concert (within the meaning of such phrase in the Securities Act (Ontario)) acquires, directly or indirectly, outstanding equity interests of the Company which have or represent 50% or more of the votes that may be cast to elect the directors of the Company or other persons charged with the management and direction of the Company, (b) any Person or group of Persons, acting jointly or in concert (within the meaning of such phrase in the *Securities Act* (Ontario)) acquires the power to direct, or cause the direction of, management, business or policies of the Company or any of its subsidiaries, whether through the ability to exercise voting power, by contract or otherwise, (c) the Company shall cease to own and control, of record and beneficially, less than the number of outstanding equity interests of its subsidiaries owned by the Company as of the Effective Date, (d) any Person or group of

Persons acting jointly or in concert (within the meaning of such phrase in the *Securities Act* (Ontario)) succeed in having a sufficient number of nominees elected to the board of directors of the Company or any of its subsidiaries that such nominees, when added to any existing director remaining on the board of directors of the Company or such subsidiary after such election who is also a nominee of such Person or group of Persons, will constitute a majority of the board of directors of the Company or such subsidiary, (e) if, at any time, the Company or any of its subsidiaries sells or otherwise disposes of all or substantially all of its assets, (f) the Company or any of its subsidiaries amalgamates or otherwise merges its business and property with or into any other Person if that amalgamation or merger is not otherwise expressly permitted by the other provisions of this Debenture, or (g) a liquidation, dissolution or winding up of the Company or any of its subsidiaries, except, as applied to the Company's subsidiaries, where such events referred to in items (a) through (g) of this definition would not have a Material Adverse Change;

- (e) **"Claim"** means any claim or liability of any nature whatsoever, including any demand, obligation, liability, debt, cause of action, suit, proceeding, judgment, award, assessment or reassessment;
- (f) **"Collateral"** means any and all assets in respect of which the Creditor has or is intended to have an Encumbrance pursuant to a Security Document;
- (g) **"Common Shares"** means the common shares in the capital of the Company, as such shares exist at the close of business on the date of execution and delivery of this Debenture; provided that, in the event of a subdivision, redivision, reduction, combination, consolidation or reclassification of the capital of the Company or such successive subdivisions, redivisions, reductions, combinations, consolidations or reclassifications, "Common Shares" shall thereafter mean the shares corresponding to the Common Shares resulting from such subdivision, redivision, reduction, combination, consolidation or reclassification;
- (h) **"Company"** means Avalon Advanced Materials Inc., a company existing under the laws of Canada, and its successors and permitted assigns (by amalgamation, merger or otherwise);
- (i) **"Confidential Information"** means the terms of this Debenture and any other information and intellectual property concerning any matters affecting or relating to the business, operations, assets, results or prospects of the Parties, including information regarding plans, budgets, costs, processes, results of experimentation and other data, except to the extent that such information has already been publicly released by a Party as allowed herein or that the Party providing such information can demonstrate was previously publicly released by a Person who did not do so in violation or contravention of any duty or agreement;

- (j) **“Conversion Option”** has the meaning ascribed to such term in Section 5.1(a) hereof;
- (k) **“Conversion Price”** means the price per Common Share at which any portion of the Principal Amount outstanding under this Debenture, together with any accrued but unpaid interest thereon, shall from time to time be convertible into Common Shares, being \$0.0911637 per Common Share, unless adjusted in accordance with the terms of this Debenture;
- (l) **“Corporate Records”** means the corporate records of the Company and any of its subsidiaries, including in each case (i) all constating documents, articles, by-laws, notice of articles, any shareholders’ agreements and any amendments thereto, and (ii) all minutes of meetings and resolutions of shareholders and the board of directors (and any committee thereof);
- (m) **“Creditor”** means SCR – SIBELCO NV and its successors and assigns;
- (n) **“Date of Conversion”** means the date specified in the notice delivered to the Company, such date being not less than 5 Business Days after receipt of same by the Company;
- (o) **“Debenture”** means this convertible secured debenture issued on the Effective Date and due on the Maturity Date in an aggregate principal amount of \$3,000,000, as the same may be amended, supplemented, otherwise modified, restated or replaced from time to time;
- (p) **“Debtor Relief Laws”** means any of the *Bankruptcy and Insolvency Act* (Canada), the *Companies’ Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada), any applicable governing corporate statute dealing with the compromise of creditor’s claims or arrangements, each as now and hereafter in effect, any successors to such statutes and any other applicable insolvency, bankruptcy, liquidation, reorganization, arrangement or relief of debtor or other similar Applicable Law of any jurisdiction, including the *Business Corporation Act* (Ontario) where such statute is used by a Person to propose an arrangement and any Applicable Law of any jurisdiction permitting a debtor to obtain a stay or a compromise of the claims of its creditors against it;
- (q) **“Effective Date”** has the meaning ascribed to such term on page 2 herein;
- (r) **“Encumbrance”** means any lien, charge, hypothec, pledge, mortgage, title retention agreement or security interest of any nature, whether or not registered or registrable and whether or not consensual or arising by any Applicable Law, and includes any contract to create any of the foregoing;

- (s) “**Event of Default**” has the meaning ascribed to such term in Section 6.1 hereof;
- (t) “**Final Advance**” has the meaning ascribed to such term in Section 2.2(b)(ii) hereof;
- (u) “**Final Advance Date**” means the date on which the Company delivers the executed Mortgage to the Creditor;
- (v) “**GAAP**” means the International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board;
- (w) “**Governmental Authorities**” means any municipal, regional, provincial or federal governments and their agencies, authorities, branches, departments, commissions or commissioners, tribunals, ministries or ministers, bureaus, or boards, having or claiming jurisdiction over the Company and/or the Company’s assets, and “**Governmental Authority**” shall mean any one of the Governmental Authorities as the context requires;
- (x) “**Governmental Charges**” means all taxes, levies, duties, assessments, reassessments and other similar charges and impositions together with all related penalties, interest and fines, due and payable by the Company or any of its subsidiaries (as applicable) to any domestic or foreign Governmental Authority or court of competent jurisdiction of any domestic or foreign Governmental Authority;
- (y) “**Guarantee**” means the guarantee by Thunder Bay Holdco in favour of the Creditor, in form and substance satisfactory to the Creditor, acting reasonably, pursuant to which the Thunder Bay Holdco guarantees the due and punctual payment and performance of the Obligations, which shall be secured by the Mortgage;
- (z) “**Initial Advance**” has the meaning ascribed to such term in Section 2.2(b)(i) hereof;
- (aa) “**Joint Venture**” means the incorporated joint venture to be created by way of a company to be incorporated (the “**JV Company**”) between the Company and the Creditor in respect of the Separation Rapids project (inclusive of the newly discovered Snowbank pegmatite deposit) and Lilypad project in Northwestern Ontario;
- (bb) “**JV Company**” has the meaning set forth in the definition of Joint Venture;
- (cc) “**JV Conversion Shares**” means 50 issued class B common shares in the capital of the JV Company which are owned by the Company (provided such 50 issued class B common shares correspond to 5% of the issued and outstanding shares of the JV Company);

- (dd) **“JV Conversion Share Closing Date”** has the meaning set forth in Section 2.5(c);
- (ee) **“JV Election”** means the election by the Creditor to convert the outstanding Principal Amount and all accrued and unpaid interest thereon for the JV Conversion Shares in accordance with Section 2.5;
- (ff) **“JV Formation Date”** has the meaning set forth in Schedule “G” to the Subscription Agreement;
- (gg) **“JV Share Pledge”** means a share pledge, executed by the Company in favour of the Creditor, in respect all class B common shares in the capital of the JV Company owned by the Company, in form and substance satisfactory to the Creditor, acting reasonably;
- (hh) **“Material Adverse Change”** means any change or event which constitutes a material adverse change in (i) the business, operations, condition (financial or otherwise), assets or properties of the Company and any of its subsidiaries, taken as a whole, (ii) the enforceability of any Transaction Document, (iii) the Company's ability to timely and fully perform its obligations under any Transaction Document, or (iv) the ability of the Creditor to enforce its rights and remedies under any Transaction Document;
- (ii) **“Maturity Date”** means the earliest of (i) June 14, 2025, and (ii) the date that all amounts owing hereunder may become due and payable in accordance with the terms hereof;
- (jj) **“Mortgage”** means a charge/mortgage granted by Thunder Bay Holdco in favour of the Creditor in the original principal amount of \$4,000,000 to be registered on title to the Thunder Bay Property as collateral security to the Guarantee, in form and substance satisfactory to the Creditor, acting reasonably;
- (kk) **“Obligations”** means all monies, securities, indebtedness, liabilities and obligations now or at any time and from time to time hereafter owing, payable or issuable by the Company to or for the benefit of the Creditor whether direct or indirect, absolute or contingent, matured or not, under or in connection with any of the Transaction Documents;
- (ll) **“Parties”** means the Company and the Creditor; and **“Party”** means any one of them;
- (mm) **“Permitted Encumbrances”** means:
  - (i) statutory encumbrances not at the time overdue, or which are overdue but the validity of which is being contested in good faith and in respect of which appropriate reserves have been established;

- (ii) Encumbrances for taxes, duties and assessments which may be overdue but the validity of which is being contested in good faith and in respect of which appropriate reserves have been established;
- (iii) Encumbrances or rights of distress reserved in or exercisable under any lease for rent or for compliance with the terms of such lease (provided that the recognition of such Encumbrances or rights as a Permitted Encumbrance shall not prejudice the priority of the Creditor's security over such Encumbrances or rights as determined in accordance with applicable law);
- (iv) any obligations or duties affecting any lands due to any public utility or Governmental Authority with respect to any franchise, grant, licence or permit and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands under government permits, leases or other grants; which obligations, duties and defects in the aggregate do not materially impair the use of such property, structures or facilities for the purpose for which they are held;
- (v) Encumbrances incurred or deposits made in connection with contracts, bids, tenders or expropriation proceedings, or to secure workers' compensation, unemployment insurance or other social security obligations, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, warehousemen's, carriers' and other similar Encumbrances and deposits;
- (vi) Encumbrances given to a public utility or Governmental Authority to secure obligations incurred to such utility, municipality, government or other authority in the ordinary course of business;
- (vii) Encumbrances and privileges arising out of judgments or awards in respect of which: an appeal or proceeding for review has been commenced; a stay of execution pending such appeal or proceedings for review has been obtained; and appropriate reserves have been established;
- (viii) any mechanic's, labourer's, materialman's statutory or other similar Encumbrance arising in the ordinary course of business or out of the construction or improvement of any lands or arising out of the furnishing of materials or supplies therefor, the action to enforce which has not proceeded to a final judgment;
- (ix) undetermined or inchoate Encumbrances incidental to the normal business operations of a company not at the time overdue, or which are overdue but have not been filed against such company or any of its properties pursuant to applicable law and the validity of which is being contested in good faith and appropriate reserves have been established;

- (x) PMSIs and capital leases up to the maximum aggregate amount of \$100,000 incurred in connection with the purchase or leasing of capital equipment;
- (xi) Royalties existing as of the date hereof;
- (xii) Encumbrances in favour of the Creditor;
- (xiii) Encumbrances permitted by the JV Agreement; and
- (xiv) Encumbrances consented to in writing by the Creditor;

provided that the use of the term "Permitted Encumbrances" to describe such interests and Encumbrances shall mean that they are permitted to exist (whether in priority to or subsequent in priority to the Creditor's security, as determined by applicable law), and shall not be interpreted as meaning that such interests and Encumbrances are entitled to priority over the Creditor's security;

- (nn) "**Person**" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership or other entity;
- (oo) "**PMSI**" means purchase-money security interests as defined in the PPSA;
- (pp) "**PPSA**" means *the Personal Property Security Act (Ontario)*, and the regulations promulgated thereunder, as amended from time to time and any legislation substituted therefor and any amendments thereto, provided that, if perfection or the effect of perfection or non-perfection or the priority of any Encumbrance created under any Security Document or under any other Transaction Document on the Collateral is governed by the personal property security legislation or other applicable legislation with respect to personal property security in effect in a province or jurisdiction other than Ontario, "PPSA" means the *Personal Property Security Act* or such other applicable legislation in effect from time to time in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority;
- (qq) "**Principal Amount**" means the aggregate principal amount advanced by the Creditor pursuant to Section 2.2 hereof and recorded by or on behalf of the Creditor on the grid attached hereto as Schedule A and any further grids attached hereto, all of which grids form part of this Debenture, as such amount may be reduced from time to time in accordance with the terms hereof;
- (rr) "**Public Disclosure Record**" means the material change reports, news releases, financial statements, management discussion and analysis, management information circulars, and other continuous disclosure

documents filed by or on behalf of the Company with the TSX and any applicable securities regulatory authority (through SEDAR);

- (ss) **“Redacted Information”** means all (i) equity percentage information relating to a conversion, and (ii) pricing related information contained in this Debenture;
- (tt) **“Required Shareholder Approval”** means the approval of the shareholders of the Company (other than the Creditor and its Affiliates) in accordance with the policies of the TSX of the issuance of Common Shares pursuant to this Debenture that, pursuant to Section 607 of the TSX Company Manual, are not permitted to be issued without such approval;
- (uu) **“Royalties”** means those royalties set out on Schedule B hereto;
- (vv) **“Securities Laws”** means, collectively, all applicable securities laws of each of the provinces and territories of Canada, other than Quebec, and the respective rules and regulations under such laws together with applicable published instruments, notices and orders of the securities regulatory authorities in the such jurisdictions, including the rules and policies of the TSX;
- (ww) **“Security Documents”** means, as the case may be, (i) the Subsidiary Share Pledge; (ii) the Mortgage (iii) the Guarantee; (iv) the JV Share Pledge; and (v) and any other security from time to time provided for the Obligations, as each of the foregoing may be amended, supplemented, otherwise modified, restated or replaced from time to time; and **“Security Document”** means any one of them;
- (xx) **“Subscription Agreement”** means the subscription agreement between the Company and the Creditor dated June 14, 2023 pursuant to which the Company agreed to issue, and the Creditor agreed to subscribe for, this Debenture;
- (yy) **“Subsidiary Share Pledge”** means a share pledge, executed by the Company in favour of the Creditor, in respect all shares of the Thunder Bay Holdco owned by Company, in form and substance satisfactory to the Creditor, acting reasonably;
- (zz) **“Thunder Bay Holdco”** means 1000560170 Ontario Inc.;
- (aaa) **“Thunder Bay Property”** means the lands and premises legally described as follows:
  - (i) Firstly, PT MINING LOCATION 2 HERRICK'S SURVEY MACGREGOR; PT MINING LOCATION 3 HERRICK'S SURVEY MACGREGOR AS IN PAD19958 (FIFTHLY & NINTHLY S OF STRATHCONA ST); S/T TBR368046 & TBR392273 & TBR325355; T/W PTA136409 &TBR390966, TBR325356; CITY OF THUNDER BAY, being the whole of PIN 62262-0006 (LT)

- (ii) Secondly, PCL 1411 SEC PAF; PT WATER LT IN FRONT OF MINING LOCATIONS 2, 3 & 4 HERRICK'S SURVEY MACGREGOR PTS 11, 14 & 20, 55R10102; T/W PT 4 & 5, 55R10102 AS IN TBR368046 (S/T TBR325355); T/W PT 7, 55R10102 AS IN TBR390967; T/W PT 4 & 5, 55R10102 AS IN TBR392273; THUNDER BAY, being the whole of PIN 62262-0013 (LT);
- (iii) Thirdly, PT MINING LOCATION 2 HERRICK'S SURVEY MACGREGOR; PT MINING LOCATION 3 HERRICK'S SURVEY MACGREGOR; PT MINING LOCATION 4 HERRICK'S SURVEY MACGREGOR; PT RDAL IN FRONT OF LT 2, 3 & 4 HERRICK'S SURVEY MACGREGOR CLOSED BY PAD21518; PT LT 29-30 PL 415 PORT ARTHUR; PT UNNAMED ST PL 415 PORT ARTHUR CLOSED BY PTA136922, PT 8, 9, 10, 12, 13, 15, 16, 17, 18, 19, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 42, 43, & 44 55R10102; T/W PTA136409, TBR368046 & TBR390967 & TBR392273; S/T PTA136410E; THUNDER BAY S/T EASEMENT OVER PT 1 55R12379 AS IN TY21959, being the whole of PIN 62262-0018 (LT);
- (iv) Fourthly, PCL 5013 SEC PAF; PT WATER LT IN FRONT OF MINING LOCATIONS 3 & 4 HERRICK'S SURVEY MACGREGOR PT 41, 55R10102; T/W PT 4 & 5, 55R10102 AS IN TBR368046 (S/T TBR325355); T/W PT 7, 55R10102 AS IN TBR390967; T/W PT 4 & 5, 55R10102 AS IN TBR392273; THUNDER BAY, being the whole of PIN 62262-0023 (LT); and
- (v) Fifthly, PCL 144 SEC TBEF; PT WATER LT IN FRONT OF MINING LOCATIONS 2, 3 & 4 HERRICK'S SURVEY MACGREGOR PT 39 & 40, 55R10102 T/W PT 4 & 5, 55R10102 AS IN TBR368046 (S/T TBR325355); T/W PT 7, 55R10102 AS IN TBR390967; T/W PT 4 & 5, 55R10102 AS IN TBR392273; THUNDER BAY, being the whole of PIN 62262-0024 (LT);

(bbb) "**Transaction Documents**" means, collectively, this Debenture, the Security Documents and any other documents, agreements or instruments executed or delivered in connection therewith; and "**Transaction Document**" means any one of them; and

(ccc) "**TSX**" means the Toronto Stock Exchange.

## 1.2 Gender and Number.

Any reference in this Debenture to gender shall include all genders, and words importing the singular number only shall include the plural and vice versa.

**1.3 Headings, Etc.**

The division of this Debenture into Articles, Sections, Subsections, and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in the construction or interpretation of this Debenture.

**1.4 Currency.**

All references in this Debenture to dollars, unless otherwise specifically indicated, are expressed in the currency of Canada.

**1.5 Severability.**

Any article, section, subsection or other subdivision of this Debenture or any other provision of this Debenture which is, or becomes, illegal, invalid or unenforceable shall be severed from this Debenture and be ineffective to the extent of such illegality, invalidity or unenforceability and shall not affect or impair the remaining provisions hereof or thereof.

**1.6 Governing Law.**

This Debenture shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. For the purpose of legal proceedings, this Debenture shall be deemed to have been made in the said Province and to be performed therein and the courts of that Province shall have jurisdiction over all disputes which may arise under this Debenture. The Parties hereby irrevocably and unconditionally submit to the non-exclusive jurisdiction of such courts.

**1.7 Accounting Principles.**

Wherever in this Debenture reference is made to “generally accepted accounting principles” or “GAAP”, such reference shall be deemed to be to GAAP (as defined herein).

**1.8 Interpretation.**

Unless otherwise expressly provided in this Debenture, if any matter in this Debenture is subject to the determination, consent or approval of the Creditor or is to be acceptable to the Creditor, such determination, consent, approval or determination of acceptability will be in the sole discretion of the Creditor, which means the Creditor shall have sole and unfettered discretion, without any obligation to act reasonably. If any provision in this Debenture refers to any action taken or to be taken by the Company, or which the Company is prohibited from taking, such provision will be interpreted to include any and all means, direct or indirect, of taking, or not taking, such action. When used in the context of a general statement followed by a reference to one or more specific items or matters, the term “including” shall mean “including, without limitation” and the use of the term “includes” shall mean “includes, without limitation”.

**ARTICLE TWO**  
**PROMISE TO PAY AND SECURITY**

**2.1 Principal Amount.**

For value received, the Company hereby promises to pay to or to the order of the Creditor (at the address of the Creditor set forth in Section 7.8(a) hereof or such other address of the Creditor as may be indicated by the Creditor pursuant to Section 7.7 hereof) on the Maturity Date the outstanding Principal Amount together with all accrued and unpaid interest thereon pursuant to Section 2.3 hereof. A record of the Principal Amount, shall be recorded by or on behalf of the Creditor on the grid attached hereto as Schedule A and any further grids attached hereto, all of which grids form part of this Debenture. Failure to record the date and amount of any Principal Amount advanced under this Debenture, or any payments made hereunder, shall not limit or otherwise affect the obligations of the Company to repay any amounts payable under this Debenture.

For avoidance of doubt, and notwithstanding anything in this Agreement to the contrary, the Conversion Option and the JV Election shall only be exercisable by the Creditor to the extent that the Company fails to pay the outstanding Principal Amount together with all accrued and unpaid interest thereon on or before the Maturity Date as contemplated by this Section 2.1.

**2.2 Advances.**

- (a) The maximum Principal Amount that may be advanced under this Debenture shall not exceed the aggregate principal amount of \$3,000,000.
- (b) Subject to completion of the conditions precedent set out in Article Four, the Principal Amount shall be advanced by the Creditor as follows:
  - (i) on the Effective Date, the Creditor will advance \$500,000 (the “**Initial Advance**”) by wire transfer of immediately available funds to the Company’s legal counsel, in trust for the Company; and
  - (ii) on the Final Advance Date, the Creditor will advance \$2,500,000 (the “**Final Advance**”) by wire transfer of immediately available funds to the Company.

**2.3 Interest.**

- (a) Interest shall accrue, and the Company covenants and agrees that it will pay interest to the Creditor, on the Principal Amount from the date of the advance both before and after the Maturity Date, demand, default and judgment until the earlier of actual payment in full or conversion in accordance with the terms of this Debenture at a rate of 7.115% per annum, calculated and accrued monthly in arrears. All accrued and unpaid interest hereunder shall be due and payable on the Maturity Date. Interest calculated and accrued prior to the Maturity Date shall not bear interest.

- (b) In the event that a court of competent jurisdiction determines that any provision of this Debenture obligates the Company to make any payment of interest, or other amount payable to the Creditor, in an amount, or calculated at a rate, which would be prohibited by Applicable Law or would result in receipt by the Creditor of interest at a rate in excess of the maximum rate permissible under Applicable Law then, notwithstanding such provision, such amount or rate shall be deemed to have been adjusted, with retroactive effect, to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by Applicable Law or so result in receipt by the Creditor of interest at a rate in excess of the maximum rate permissible.
- (c) For the purposes of the *Interest Act* (Canada) and disclosure under such act, whenever interest to be paid under this Debenture is to be calculated on the basis of a year of 365 days or 366 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by either 365, 366 or such other period of time, as the case may be.

#### 2.4 Voluntary Prepayment

The Company may prepay without consent of or notice to the Creditor the outstanding Principal Amount and any accrued and unpaid interest thereon at any time and from time to time without penalty. Upon the payment of all outstanding Principal Amount and any accrued and unpaid interest thereon: (i) this Debenture shall be terminated and all rights under Article Five or in connection with the JV Election (including under Section 2.5) shall, for avoidance of doubt, be terminated; and (ii) all Collateral will be automatically released and or discharged.

#### 2.5 JV Election

- (a) In the event that: (i) the Company has not paid the outstanding Principal Amount and all accrued and unpaid interest on or prior to the Maturity Date; and (ii) the Creditor has not exercised the Conversion Option under Article Five following such non-payment in (i), the Creditor shall have the right, but not the obligation, to deliver the JV Election within a period of 20 Business Days after the Maturity Date, exercising its right to convert all (but not less than all) of the outstanding Principal Amount plus all accrued and unpaid interest thereon for the JV Conversion Shares. For avoidance of doubt, the JV Election shall be mutually exclusive with the Conversion Option under Article Five. If the JV Election has not been delivered within such period of 20 Business Days after the Maturity Date, the Creditor shall have no further rights to elect to receive the JV Conversion Shares.
- (b) The transfer of the JV Conversion Shares from the Company to the Creditor shall occur on the day that is five Business Days after the date of the JV Election (the “**JV Conversion Share Closing Date**”).
- (c) On the JV Conversion Share Closing Date:

- (i) the Company shall deliver a signed certificate to the Creditor certifying that: (i) it is the owner of the JV Conversion Shares free and clear of any and all Encumbrances (other than any Encumbrances in favour of the Creditor over such JV Conversion Shares provided for hereunder); (ii) the Company has full right, title and interest in and to the JV Conversion Shares; (iii) the Company has the corporate power and capacity and has taken all necessary action to transfer the JV Conversion Shares on the JV Conversion Share Closing Date;
  - (ii) the Company and the Creditor shall sign any and all necessary corporate approvals as may be required in order to authorize the transfer of the JV Conversion Shares from the Company to the Creditor as contemplated in this Debenture, and the Creditor shall release any Encumbrance in favour of the Creditor over such JV Conversion Shares to facilitate such transfer;
  - (iii) the Company shall deliver the JV Conversion Shares to the Creditor endorsed in blank for transfer;
  - (iv) the Creditor shall deliver a fully and final release and/or discharge of this Debenture; and
  - (v) the Company and the Creditor shall take all actions as may be reasonably necessary to consummate the transfer of the JV Conversion Shares from the Company to the Creditor and thereafter, the Creditor shall take all actions as may be reasonably necessary to cause the conversion of the JV Conversion Shares from class b common shares in the capital of the JV Company into class a common shares in the capital of the JV Company on a one for one basis.
- (d) Upon satisfaction of the conditions set forth in Section 2.5(c), all outstanding Obligations shall be deemed satisfied and this Debenture shall terminate and be of no further force or effect.

## 2.6

### **Security.**

- (a) As security for the payment and performance of the Obligations, the following security shall be granted to the Creditor:
  - (i) On the Effective Date, the Company shall deliver to the Creditor the executed Subsidiary Share Pledge.
  - (ii) On the Final Advance Date, the Company shall deliver, or cause Thunder Bay Holdco to deliver, to the Creditor the executed Mortgage and Guarantee. Upon delivery of the Mortgage and Guarantee pursuant to this Section 2.6(a)(ii), the Subsidiary Share Pledge shall automatically terminate and become null and void, and the Creditor shall return the Subsidiary Share Pledge and any Collateral in its possession held thereunder to the Company.

- (iii) On the JV Formation Date, the Company shall deliver to the Creditor the executed JV Share Pledge. Upon delivery of the JV Share Pledge pursuant to this Section 2.6(a)(iii), the Mortgage and the Guarantee shall automatically terminate and become null and void, and the Creditor shall at the request and expense of the Company, execute and deliver such documents or do such acts as the Company may reasonably request in order to discharge any Encumbrances related to the Mortgage.
- (b) The Company shall, at its own expense and to the satisfaction of the Creditor, register, file or record, or cause to be registered, filed or recorded, the Security Documents in all offices and jurisdictions where such registration, filing or recording is necessary or, in the Creditor's determination, advisable or to the advantage of the Creditor, to create, perfect or preserve the Security Documents granted by the Company. The Company shall provide the Creditor with such assistance and do such acts as the Creditor may from time to time reasonably request and provide such other materials of conveyance, assignment, transfer or charge to properly effect the Creditor's security as contemplated and shall renew and maintain such registrations, filings and recordings from time to time as and when required to keep them in full force and effect.

### **ARTICLE THREE** **COVENANTS AND REPRESENTATIONS OF THE COMPANY**

#### **3.1 Positive Covenants.**

So long as any Obligations remain outstanding, the Company covenants and agrees that it will, and will cause each of its subsidiaries (as applicable), to:

- (a) **Shareholder Approval.** At each meeting of the shareholders of the Company following the date of this Debenture until the Required Shareholder Approval has been obtained, the Company will seek the Required Shareholder Approval. The board of directors of the Company shall unanimously recommend that the shareholders of the Company approve the resolution seeking the Required Shareholder Approval, and the Company shall use commercially reasonable efforts to obtain the Required Shareholder Approval, including soliciting proxies in favour of the approval of such resolution.
- (b) **Payment and Performance of Obligations.** Duly and punctually pay all Obligations and other sums of money due by it under the terms of this Debenture at the times and places and in the manner provided for by this Debenture and shall duly and punctually perform and observe all other obligations on its part to be performed or observed under the Transaction Documents at the times and in the manner provided for herein;
- (c) **Common Shares.** At all times reserve out of its unissued Common Shares solely for the purpose of the Conversion Option, and shall conditionally allot to the Creditor, a sufficient number of unissued

Common Shares so as to entitle all of such Principal Amount outstanding hereunder, together with all accrued but unpaid interest thereon, at any time to be converted upon the terms and conditions provided for in Article Five;

- (d) **Observation of Covenants.** Duly observe and perform each and every one of its covenants and agreements set forth in the Transaction Documents;
- (e) **Notice.** Provide the Creditor with prompt written notice of: (i) any event which constitutes, or which, with notice, lapse of time, or both, would constitute an Event of Default hereunder; and (ii) any default by the Company or any of its subsidiaries, as the case may be, under a contract to which it is a party with a value in excess of \$1,000,000;
- (f) **Maintenance of Existence & Business Practices.** Maintain, and cause each of its subsidiaries to maintain, its corporate existence, carry on and conduct its business in a proper and business-like manner, take all reasonable action to maintain all rights and privileges necessary or desirable in the normal conduct of its business and comply with all applicable legal requirements;
- (g) **Compliance with Laws.** Comply with all Applicable Laws in all material respects;
- (h) **Approvals.** Use commercially reasonable efforts to obtain and maintain all necessary waivers, consents, permits, licences and approvals required to be obtained by the Company and its subsidiaries to operate their business, own their assets, and to complete the transactions contemplated by the Transaction Documents;
- (i) **Taxes.** Pay all taxes imposed on it, or on its income or profits or its assets, when due and payable, except for any taxes assessed against the Company or its subsidiaries which they are in good faith contesting pursuant to a *bona fide* dispute process;
- (j) **Insurance.** Maintain and cause, with respect to the Collateral, any applicable subsidiary to maintain, insurance coverage with responsible insurers, in amounts and against risks normally insured by owners of similar businesses or assets. Such insurance coverage which relates to the Collateral shall name the Creditor as first loss payee and additional insured, and neither the Company nor any of its subsidiaries shall fail to promptly give any notice or present any material claim thereunder;
- (k) **Carry on Business.** Continue to carry on and conduct their business in a proper and efficient manner, maintain proper books and records in all material respects (in which full and correct entries shall be made of all financial transactions and the assets and the business of the Company and each of its subsidiaries in accordance with GAAP);
- (l) **Provision of Further Information.** Provide to the Creditor:

- (i) notice of the occurrence of any default or Event of Default setting out the details of any event so disclosed and the steps (if any) taken by it to remedy or cure the same;
  - (ii) the receipt of any notice given or sent to or served upon the Company which would constitute, or would be reasonably expected to constitute, a Material Adverse Change;
  - (iii) all information as may from time to time be required by the Creditor under or in connection with compliance with any Applicable Laws; and
  - (iv) such other information as the Creditor may request, acting reasonably, from time to time;
- (m) **Good Accounting Practice.** At all times keep proper books of record and account which, in all material respects, are kept, where applicable, in accordance with GAAP, consistently applied;
- (n) **Payment and Performance of Third-Party Obligations.** Duly and punctually pay all material sums of money due by them to any party other than the Creditor as and when such payments shall become due and shall maintain in good standing and observe and perform in all material respects all material contracts to which they are a party;
- (o) **Further Assurances.** Provide the Creditor with such other documents, opinions, consents, acknowledgements and agreements as are reasonably necessary to implement this Debenture and the other Transaction Documents and perfect and maintain any of the security interests granted, or intended to be granted, to the Creditor pursuant to or in connection herewith.
- (p) **Reporting Issuer Status and Listing.** The Company shall maintain: (i) its status as a "reporting issuer" (or the equivalent thereof) not in default under applicable Securities Laws in each of the Provinces and Territories of Canada, other than Quebec; and (ii) the listing of the Common Shares on the TSX in good standing, and timely file all reports and otherwise comply in all material respects with all other requirements of the TSX and under applicable Securities Laws; and
- (q) **Use of Proceeds.** The Initial Advance shall be used to fund a portion of the purchase price for the Thunder Bay Property and the Final Advance shall be used for general working capital purposes.
- (r) **Mortgage.** The Company will cause Thunder Bay Holdco to prepare, execute and deliver the Mortgage and the Guarantee to the Creditor as soon as reasonably practicable following the acquisition of the Thunder Bay Property by Thunder Bay Holdco.
- (s) **Share Pledge.** On the JV Formation Date, the Company will deliver the executed Share Pledge to the Creditor.

### 3.2 **Negative Covenants.**

So long as any Obligations remain outstanding, the Company hereby covenants and agrees, that, without the prior written consent of the Creditor, the Company shall not:

- (a) **Amalgamations.** Directly or indirectly, by operation of law or otherwise, amalgamate with, merge with, consolidate with or otherwise combine with, any Person or solicit, encourage, initiate, facilitate, negotiate or enter into any agreements or other instruments, whether binding or non-binding, in respect of the foregoing;
- (b) **Encumbrances.** Create, incur, assume or permit to exist any Encumbrance, or cause any subsidiary to incur, assume or permit to exist any Encumbrance, on or with respect to the Collateral except for Permitted Encumbrances;
- (c) **Non-Arm's Length Transactions.** Enter into, amend or be a party to any agreement or transaction with, or make any payment to, any Person not acting at arm's length (as defined in the *Income Tax Act* (Canada)) other than on terms consistent with those offered to arm's length parties, transactions with subsidiaries or consistent with past practice;
- (d) **Restricted Payments.**
  - (i) Declare or pay any dividend or incur any liability to make any other payment or distribution of cash, other property or other assets in respect of any class of its capital stock, warrants, options or other rights with respect to any shares of any class of its capital stock;
  - (ii) Make any payment or distribution, or apply any of its funds, property or assets on account of the purchase, redemption, defeasance, sinking fund, retirement, or any other reduction of any class of its capital stock, warrants, options or other rights with respect to any shares of any class of its capital stock; or
  - (iii) Make any deposit for any of the foregoing purposes or other discharge of any indebtedness incurred by an Affiliate other than the Company or a subsidiary of the Company;

provided however that the Company's wholly-owned subsidiaries are not prohibited from taking the above actions.

- (e) **No Sale of Assets.** Directly or indirectly sell, lease, assign, transfer, convey or otherwise dispose of (whether in one or a series of transactions), or cause any subsidiary to sell, lease, assign, transfer, convey or otherwise dispose of (whether in one or a series of transactions) the Collateral;
- (f) **Constating Documents and Share Capital.** Amend, alter, modify or repeal its notice of articles, articles, by-laws or other constating documents, in any manner which is reasonably likely to result in a

Material Adverse Change, or create, or authorize the creation of, any additional class or series of shares of the Company (or any security convertible into or exercisable for any such additional class or series of shares of the Company);

- (g) **Dissolution.** Liquidate, wind-up, dissolve themselves (or suffer any liquidation or dissolution), reorganize, make an assignment for the benefit of their creditors or file a petition, answer or consent to seeking a reorganization;
- (h) **Insolvency.** Make an assignment into bankruptcy, file a notice of intention to file a proposal in bankruptcy or file a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada);
- (i) **Related Party Transactions.** Enter into any related party transactions unless such transaction: (i) is between the Company and its subsidiary or among subsidiaries of the Company; (ii) is in the ordinary course of the Company's business; and (iii) is on customary fair and reasonable market terms that are no less favourable to the Issuer than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person; and (iv) no Event of Default has occurred and is continuing;

### 3.3 Representations and Warranties

The Company hereby represents and warrants to the Creditor that:

- (a) **No Default.** No default has occurred and is continuing under any material agreement to which the Company or any of its subsidiaries is a party or by which their properties are bound.
- (b) **Status; Corporate Power and Qualification.** The Company and each of its subsidiaries:
  - (i) is a corporation duly incorporated, organized, validly existing and in good standing under the laws of its jurisdiction of formation;
  - (ii) is duly qualified to conduct business and is in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification;
  - (iii) has the requisite corporate power and authority and the legal right to own, pledge, mortgage, hypothecate or otherwise encumber and operate its properties and assets, to lease the property it operates under lease and to conduct its business as presently conducted in the jurisdictions in which it currently carries on business;
  - (iv) is in compliance with its constating documents and by-laws; and
  - (v) is in compliance in all material respects with Applicable Law.

- (c) **Authorization; Execution and Delivery; Approval and Conflict.** The execution, delivery and performance by the Company of this Debenture and the other Transaction Documents and the creation of the Encumbrances in favour of the Creditor:
- (i) are within the Company's corporate power;
  - (ii) have been duly authorized by all necessary or proper corporate and shareholder action;
  - (iii) do not contravene any provision of the constating documents or bylaws or any resolutions passed by the directors (or any committee thereof) or shareholders of the Company or any of its subsidiaries;
  - (iv) do not result in any breach or violation of any statute or any judgment, decree, order, rule, policy or regulation of any court, Governmental Authority, arbitrator, stock exchange or securities regulatory authority applicable to the Company or any of their respective properties or assets;
  - (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which the Company is a party or by which the Company or any of its respective property or assets is bound, except as disclosed to the Creditor prior to the date of this Agreement; and
  - (vi) do not require the consent, approval, authorization, order or agreement of, or registrations or qualification with any Governmental Authority or any other Person.
- (d) **Validity of Agreements.** Each of the Debenture and the other Transaction Documents has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable against it in accordance with its terms, subject only to:
- (i) applicable bankruptcy, insolvency, liquidation, reorganization, reconstruction, moratorium laws or similar laws affecting creditors' rights generally; and
  - (ii) the fact that the availability of equitable remedies, such as specific performance and injunctive relief, are in the discretion of a court and may not be available where damages are considered an equitable remedy.
- (e) **Taxes and Filings.** All tax returns, reports and statements, including information returns, required by any Governmental Authority to be filed by the Company have been filed with the appropriate Governmental Authority and all taxes have been paid prior to the date on which any

fine, penalty, interest or late charge may be added thereto for non-payment thereof (or any such fine, penalty, interest, late charge or loss has been paid). The Company has duly and timely filed all material returns required to be filed by it prior to the date hereof, other than those which have been administratively waived, and all such returns are or will be upon filing, true, complete and correct in all material respects. The Company has paid or has collected, withheld and remitted to the appropriate Governmental Authority on a timely basis all material Governmental Charges which are due and payable, other than those which are being or have been contested in good faith and, where payment is not yet due. No audit, action, investigation, deficiencies, litigation, proposed adjustments or other matters in controversy exist or have been asserted or threatened with respect to Governmental Charges of the Company, and the Company is not a party to any action or proceeding for assessment or collection of Governmental Charges and no such event has been asserted or, to the knowledge of the Company, threatened against the Company, its subsidiaries, or any of their respective assets or property, except where such deficiencies or other matters, actions or proceedings would not reasonably be expected to have a Material Adverse Change. There are no currently effective material elections, agreements or waivers extending the statutory period or providing for an extension of time with respect to the assessment or reassessment of any Governmental Charges, or of the filing of any return or any payment of Governmental Charges by the Company.

- (f) **Authorized Capital.** The authorized capital of the Company consists of an unlimited number of Common Shares, of which 441,527,159 Common Shares are issued and outstanding as of the date hereof. Except pursuant to the Transaction Documents and as disclosed in the Public Disclosure Record, (i) the Company does not have any outstanding agreement, subscription, warrant, option or commitment (nor has it granted any right or privilege capable of becoming an agreement, subscription, warrant, option or commitment) obligating it to issue or sell any Common Shares or other securities, including any security or obligation of any kind convertible into or exchangeable for Common Shares or other security; and (ii) there is no outstanding share or stock appreciation right, phantom equity, restricted share unit, deferred share unit or similar right, agreement, arrangement or commitment based on the market price of the Common Shares or the income or any other attribute of the Company or any of its subsidiaries. Other than the Transaction Documents, there is no outstanding shareholder agreement, proxy, voting trust, right to require registration under any applicable Securities Laws or any other arrangement or commitment to which the Company or any of its subsidiaries is a party or bound, with respect to the voting, disposition or registration of any outstanding securities of the Company or any of its subsidiaries.
- (g) **Valid Issuance of Debenture and Underlying Shares.** This Debenture will be duly and validly created and issued, and will be free of restrictions on transfer other than restrictions on transfer set forth in the Debenture and under applicable Securities Laws. The Common Shares issuable

upon the conversion of the Debenture will be duly and validly authorized, allotted and reserved for issuance upon such conversion and will, upon the conversion of the Debenture in accordance with its terms, be validly issued as fully paid and non-assessable shares in the capital of the Company.

- (h) **Corporate Records.** The Corporate Records of the Company are complete and accurate in all material respects and all corporate proceedings and actions reflected therein have been conducted or taken in material compliance with all Applicable Laws and with the constating documents of the Company.
- (i) **Restrictive Agreements.** The Company is not subject to any restriction under its constating documents or is party or subject to any Claim, Encumbrance or contract, instrument or other agreement which would prevent (i) the consummation of the transactions contemplated by this Debenture or the other Transaction Documents, (ii) compliance by the Company with the terms, conditions and provisions of this Debenture or the other Transaction Documents, as applicable, or (iii) the Company from carrying on its business as currently conducted after the date hereof.
- (j) **No Material Adverse Change.** Except as disclosed by the Company to the Creditor prior to the Effective Date, since February 28, 2023 there has been no change in the affairs, assets, liabilities, business, prospects, operations or conditions (financial or otherwise) of the Company, on a consolidated basis, which had or would reasonably be expected to have a Material Adverse Change.
- (k) **Collateral.** The Company, or a subsidiary of the Company, owns or otherwise holds good and valid legal title to the Collateral free and clear of any Encumbrances other than Permitted Encumbrances.
- (l) **Insolvency.** Neither the Company nor any of its subsidiaries has admitted in writing that it is, or has been declared to be, insolvent or unable to pay its debts. Neither the Company nor any of its subsidiaries has committed an act of bankruptcy or sought protection from its creditors before any court or pursuant to any legislation, proposed a compromise or arrangement to its creditors generally, taken any proceeding with respect to a compromise or arrangement, taken any proceeding to be declared bankrupt or wound up, taken any proceeding to have a receiver appointed of any of its assets, had any person holding any Encumbrance, charge, hypothec, pledge, mortgage, title retention agreement or other security interest or receiver take possession of any of its property, had an execution or distress become enforceable or levied upon any portion of its property or had any petition for a receiving order in bankruptcy filed against it.
- (m) **Insurance.** The assets, business and operations of the Company are insured against loss or damage with responsible insurers on a basis consistent with insurance obtained by reasonably prudent participants

in a comparable business in comparable circumstances and such coverage is in full force and effect as of the Effective Date;

- (n) **Reporting Issuer and Listing Status.** The Company is a reporting issuer or the equivalent thereof not in default under the Securities Laws of each of the Provinces and Territories of Canada, other than Quebec; where applicable, the Company is in compliance with its timely disclosure obligations under the Securities Laws in each of the Provinces and Territories of Canada, other than Quebec and under the rules and policies of the TSX and, without limiting the generality of the following, since February 28, 2023, there has not occurred any Material Adverse Change in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of the Company and its subsidiaries (taken together as a whole) which has not been publicly disclosed; the Common Shares are listed and posted for trading on the TSX and the Company is in material compliance with the applicable rules and policies of the TSX.
- (o) **No Orders.** No order, ruling or determination having the effect of suspending the sale of, or ceasing the trading of, the Common Shares or any other securities of the Company has been issued and is continuing in effect and no proceedings for that purpose have been instituted, are pending or, to the knowledge of the Company, are contemplated or threatened (in writing) under any Applicable Law or by any Governmental Authorities.
- (p) **Disclosure Controls.** The Company has established and maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under applicable Securities Laws are recorded, processed, summarized and reported within the time periods specified in applicable Securities Laws. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under applicable Securities Laws are accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.
- (q) **Shares Issuable Hereunder.** The Common Shares issuable hereunder have been, or prior to the time of closing on the Closing Date, will be duly authorized for issuance and will, upon their issuance in accordance with Article Five, be validly issued as fully paid and non-assessable shares in the capital of the Company.
- (r) **Ownership of Subsidiary.** The authorized capital of the Thunder Bay Holdco consists of an unlimited number of common shares. The Company is the registered and beneficial owner of 100 Class A common shares of the Thunder Bay Holdco, representing all of the issued and

outstanding common shares of the Thunder Bay Holdco. The Thunder Bay Holdco does not have any outstanding agreement, subscription, warrant, option or commitment (nor has it granted any right or privilege capable of becoming an agreement, subscription, warrant, option or commitment) obligating it to issue or sell any common shares or other securities, including any security or obligation of any kind convertible into or exchangeable for common shares or other security.

#### 3.4 **Survival of Representations and Warranties**

The representations and warranties of the Company contained in this Debenture and in all certificates delivered pursuant to or contemplated by this Debenture will survive the execution of this Debenture.

### **ARTICLE FOUR** **CONDITIONS PRECEDENT**

#### 4.1 **Conditions Precedent to Advances**

The obligation of the Creditor to make the Initial Advance and the Final Advance under this Debenture will be subject to the completion of each of the following conditions precedent to the satisfaction of the Creditor:

- (a) The execution and delivery of each of the Transaction Documents in form and substance satisfactory to the Creditor, acting reasonably;
- (b) The Company shall have obtained and provided evidence to the Creditor of all necessary corporate approvals;
- (c) The Company shall have delivered an officer's certificate attaching certified copies of its constating documents, a certificate of incumbency and certified directors' resolutions of the Company authorizing the transactions contemplated by the Transaction Documents;
- (d) All registrations in Canada necessary or desirable in connection with the Security Documents shall have been registered (or arrangements for registration satisfactory to the Creditor, acting reasonably, shall have been made) in all offices in which, in the opinion of the Creditor or its counsel, registration is necessary or of advantage to perfect or render opposable to third parties the Encumbrances intended to be created by the Security Documents;
- (e) The Company shall provide the Creditor certificates of insurance evidencing all insurance policies required to be maintained by the Company with respect to the Collateral, such certificates to name the Creditor as an additional insured (with respect to liability insurance only) and a loss payee and containing (i) provisions that such policies will not be cancelled without 30 days prior written notice having been given by the insurance company to the Creditor, and (ii) a standard non-contributory "mortgagee", "lender" or "secured party" clause, as well as such other provisions as the Creditor may reasonably require to fully

protect the Creditor's interest in all assets, property and undertakings of the Company and to any payments to be made under such policies;

- (f) In respect of the Final Advance only, the Company shall have delivered an officer's certificate dated as of the Final Advance Date certifying that: (i) the Company is in compliance with this Debenture and has not committed a breach hereof; and (ii) the representations and warranties of the Company contained in this Debenture are true and correct as at the Final Advance Date with the same force and effect as if made as at and as of the Final Advance Date; and
- (g) Such other documents, information and deliveries as may be reasonably required by the Creditor.

## **ARTICLE FIVE** **CONVERSION OF CONVERTIBLE DEBENTURE**

5.1

### **Optional Conversion of Debenture into Shares.**

- (a) **Optional Conversion.** In the event that: (i) the Company has not paid the outstanding Principal Amount plus all accrued and unpaid interest thereon on or prior to the Maturity Date; and (ii) the Creditor has not exercised the JV Election under Section 2.5 following such non-payment in (i), the Creditor shall have the right, at its option, upon written notice to the Company at any time on or following the Maturity Date for a period of twenty (20) Business Days, to convert the whole of the Principal Amount then outstanding hereunder, together with any accrued but unpaid interest thereon (the "**Conversion Option**"), into such number of Common Shares determined by a fraction equal to:
  - (i) the numerator of which shall be the amount of the outstanding Principal Amount and any accrued but unpaid interest thereon being converted; and
  - (ii) the denominator of which shall be the Conversion Price;
- (b) **Conversion Mechanism.** The Creditor may exercise the Conversion Option by: (i) delivering to the Company a written notice specifying the Principal Amount and the accrued interest thereon to be converted pursuant to the Conversion Option and designating the Date of Conversion; and (ii) surrendering this Debenture to the Company at its principal office. On the Date of Conversion, the Creditor shall be entered in the books of the Company as the holder of the number of fully paid and non-assessable Common Shares into which the designated Principal Amount and any interest thereon is convertible in accordance with the provisions hereof and, as soon as practicable thereafter, the Company shall deliver a certificate or certificates representing such Common Shares to the Creditor.

## 5.2 **Restrictions on Conversion.**

This Debenture, plus all accrued and unpaid interest thereon shall not be converted into Common Shares unless the issuance of the Debenture is approved by the holders of a majority of the shares of the Company, in accordance with section 607(g)(i) of the TSX Company Manual.

## 5.3 **Date of Conversion.**

For the purposes hereof, this Debenture (or such part thereof, if applicable) shall be deemed to be converted on the Date of Conversion. As of and from the Date of Conversion, the Common Shares so issued upon exercise of the Conversion Option shall for all purposes be and be deemed to be issued and outstanding as fully paid and non-assessable Common Shares in the name of the Creditor. Upon the issue by the Company of the certificate or certificates representing such Common Shares, the outstanding Principal Amount, as the case may be, shall be automatically reduced by the amount of the Principal Amount so converted pursuant to the Conversion Option.

## 5.4 **No Fractional Shares.**

Notwithstanding anything contained herein, the Company shall in no case be required to issue fractional Common Shares upon the conversion of this Debenture pursuant to the Conversion Option. If any fractional interest in the Common Shares would, except for the provisions of this Section, be deliverable upon the conversion of this Debenture pursuant to the Conversion Option, the Company shall, in lieu of delivering any certificate of fractional interest, satisfy the fractional interest by paying to the Creditor an amount of lawful money of Canada equal (computed to the nearest whole cent, with one-half of a cent being rounded up) to the Principal Amount outstanding after so much of the Principal Amount as may be converted into a whole number of Common Shares has been so converted.

## 5.5 **Reservation of Common Shares.**

The Company covenants and agrees that so long as any Principal Amount or accrued and unpaid interest remains outstanding hereunder it will at all times reserve out of its unissued Common Shares solely for the purpose of the Conversion Option, and shall conditionally allot to the Creditor, a sufficient number of unissued Common Shares so as to entitle all of such Principal Amount outstanding hereunder, together with all accrued but unpaid interest thereon, at any time to be converted upon the terms and conditions provided for in this Article Five.

## 5.6 **Adjustment of Conversion Price.**

- (a) The Conversion Price in effect at any date shall be subject to adjustment from time to time as provided in this Section 5.6. For the purpose of this Section 5.6, unless there is something in the subject matter or context inconsistent therewith, the words and terms defined below shall have the respective meanings specified therefor:

**“Current Market Price”** of the Common Shares at any date means the price per share equal to the weighted average price at which the Common Shares have traded on the TSX or, if the Common Shares are not then listed on the TSX, on such other Canadian stock exchange on which the shares trade as may be selected by the directors of the

Company for such purpose or, if the Common Shares are not then listed on any Canadian stock exchange, in the over-the-counter market, during the period of any twenty consecutive trading days ending not more than five business days before such date; provided that the weighted average price shall be determined by dividing the aggregate sale price of all Common Shares sold on the said exchange or market, as the case may be, during the said twenty consecutive trading days by the total number of Common Shares so sold; and provided further that if the Common Shares are not then listed on any Canadian stock exchange or traded in the over-the counter market, then the Current Market Price shall be determined by such firm of independent chartered accountants as may be selected by the directors of the Company and acceptable to the Creditor, acting reasonably;

“**director**” means a director of the Company for the time being and, unless otherwise specified herein, a reference to action “by the directors” means action by the directors of the Company as a board or, whenever empowered, action by the executive committee of such board; and

“**trading day**” with respect to a stock exchange or over-the-counter market means a day on which such stock exchange or market is open for business.

- (b) If and whenever at any time after the date hereof and prior to the Maturity Date the Company shall (i) subdivide or redivide its then outstanding Common Shares into a greater number of Common Shares, (ii) reduce, combine or consolidate its then outstanding Common Shares into a lesser number of Common Shares or (iii) issue Common Shares (or securities exchangeable for or convertible into Common Shares) to the holders of all or substantially all of its then outstanding Common Shares by way of a stock dividend or other distribution (any of such events herein called a “**Common Share Reorganization**”), then the Conversion Price shall be adjusted effective immediately after the effective date of any such event in (i) or (ii) above or the record date at which the holders of Common Shares are determined for the purpose of any such dividend or distribution in (iii) above, as the case may be, by multiplying the Conversion Price in effect on such effective date or record date, as the case may be, by a fraction, the numerator of which shall be the number of Common Shares outstanding on such effective date or record date, as the case may be, before giving effect to such Common Share Reorganization and the denominator of which shall be the number of Common Shares outstanding immediately after giving effect to such Common Share Reorganization including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would be outstanding if such securities were exchanged for or converted into Common Shares.
- (c) If at any time after the date hereof and prior to the Maturity Date the Company shall fix a record date for the issue or distribution to the holders of all or substantially all of the outstanding Common Shares, of

rights, options or warrants pursuant to which such holders are entitled, during a period expiring not more than 45 days after the record date for such issue (such period being the “**Rights Period**”), to subscribe for or purchase Common Shares or securities exchangeable for or convertible into Common Shares at a price per share (or in the case of securities exchangeable for or convertible into Common Shares at an exchange or conversion price per share at the date of issue of such securities) of less than 95% of the Current Market Price of the Common Shares on such record date (any of such events being herein called a “**Rights Offering**”), the Conversion Price shall be adjusted effective immediately after the record date for the Rights Offering to the amount determined by multiplying the Conversion Price in effect on such record date by a fraction:

- (i) the numerator of which shall be the aggregate of
  - the number of Common Shares outstanding on the record date for the Rights Offering; and
  - the quotient determined by dividing
    - I. either (a) the product of the number of Common Shares offered during the Rights Period pursuant to the Rights Offering and the price at which such Common Shares are offered, or, (b) the product of the exchange or conversion price of the securities so offered and the number of Common Shares for or into which the securities offered pursuant to the Rights Offering may be exchanged or converted, as the case may be, by
    - II. the Current Market Price of the Common Shares as of the record date for the Rights Offering; and
- (ii) the denominator of which shall be the aggregate of the number of Common Shares outstanding on such record date and the number of Common Shares offered pursuant to the Rights Offering (including in the case of the issue or distribution of securities exchangeable for or convertible into Common Shares the number of Common Shares for or into which such securities may be exchanged or converted).

If by the terms of the rights, options, or warrants referred to in this Section 5.6(c), 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 or exchangeable securities so offered, shall be calculated for purposes of the adjustment on the basis of the lowest purchase, conversion or exchange price per Common Share, as the case may be. Any Common Shares owned by or held for the account of the Company shall be deemed not to be outstanding for the

purpose of any such calculation. To the extent that any adjustment in the Conversion Price occurs pursuant to this Section 5.6(c) as a result of the fixing by the Company of a record date for the issue or distribution of rights, options or warrants referred to in this Section 5.6(c), the Conversion Price shall be readjusted immediately after the expiry 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 expiry and shall be further readjusted in such manner upon the expiry of any further such right.

If this Debenture has been converted during the period beginning after the record date for a Rights Offering and ending on the last day of the Rights Period thereunder, the Creditor will, in addition to the Common Shares to which it is otherwise entitled upon such conversion, be entitled to that number of additional Common Shares equal to the difference, if any, between (x) the result obtained when the Conversion Price in effect immediately prior to the end of such Rights Offering pursuant to this subsection is multiplied by the number of Common Shares received upon the conversion of this Debenture during such period, and the resulting product is divided by the Conversion Price as adjusted for such Rights Offering pursuant to this subsection provided that the provisions of Section 5.4 herein will be applicable to any fractional interest in a Common Share to which the Creditor might otherwise be entitled and (y) the number of Common Shares received upon the conversion of this Debenture during such Rights Period. Such additional Common Shares will be deemed to have been issued to the Creditor immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to the Creditor within 10 business days following the end of the Rights Period.

- (d) If at any time after the date hereof and prior to the Maturity Date, the Company shall fix a record date for the issue or distribution to the holders of all or substantially all of the Common Shares of:
  - (i) shares of the Company of any class other than Common Shares;
  - (ii) rights, options or warrants to acquire Common Shares or securities exchangeable for or convertible into Common Shares (other than rights, options or warrants pursuant to which holders of Common Shares are entitled, during a period expiring not more than 45 days after the record date for such issue, to subscribe for or purchase Common Shares at a price per share (or in the case of securities exchangeable for or convertible into Common Shares at an exchange or conversion price per share at the date of issue of such securities) of at least 95% of the Current Market Price of the Common Shares on such record date);
  - (iii) evidences of indebtedness of the Company; or

- (iv) any property or assets of the Company (for greater certainty, including cash, but excluding a cash dividend in the ordinary course);

and if such issue or distribution does not constitute a Common Share Reorganization or a Rights Offering (any of such non-excluded events being herein called a "**Special Distribution**"), the Conversion Price shall be adjusted effective immediately after the record date for the Special Distribution to the amount determined by multiplying the Conversion Price in effect on the record date for the Special Distribution by a fraction:

the numerator of which shall be the difference between:

- 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, and
- II. the fair value (as determined by action by nationally or internationally recognized and independent firm of chartered accountants as may be selected by action by the directors of the Company and acceptable to the Creditor, acting reasonably, and subject to the approval of any stock exchange on which the Common Shares may then be listed, where required) to the holders of the Common Shares of the shares, rights, options, warrants, evidences of indebtedness or property or assets to be issued or distributed in the Special Distribution, and

the denominator of which shall be the product obtained by multiplying the number of Common Shares outstanding on such record date by the Current Market Price of the Common Shares on such record date.

Any Common Shares owned by or held for the account of the Company shall be deemed not to be outstanding for the purpose of such calculation. To the extent that any adjustment in the Conversion Price occurs pursuant to this Section 5.6(d) as a result of the fixing by the Company of a record date for the issue or distribution of rights, options or warrants to acquire Common Shares or securities exchangeable for or convertible into Common Shares referred to in this Section 5.6(d), the Conversion Price shall be readjusted immediately after the expiry of any relevant exercise, exchange or conversion right to the amount which would then be in effect if the fair market value had been determined on the basis of the number of Common Shares issued and remaining issuable immediately after such expiry, and shall be further readjusted in such manner upon the expiry of any further such right.

- (e) If and whenever at any time after the date hereof and prior to the Maturity Date there is a capital reorganization of the Company or a reclassification or other change in the Common Shares (other than a

Common Share Reorganization) or a consolidation or merger or amalgamation of the Company with or into any other corporation or other entity (other than a consolidation, merger or amalgamation which does not result in any reclassification of the outstanding Common Shares or a change of the Common Shares into other securities), or a transfer of all or substantially all of the Company's undertaking and assets to another corporation or other entity in which the holders of Common Shares are entitled to receive shares, other securities or other property (any of such events being called a "**Capital Reorganization**"), after the effective date of the Capital Reorganization the Creditor shall be entitled to receive, and shall accept, for the same aggregate consideration, upon conversion of this Debenture, in lieu of the number of Common Shares to which the Creditor was theretofore entitled upon the conversion of this Debenture, the kind and aggregate number of Common Shares and other securities or property resulting from the Capital Reorganization which the Creditor would have been entitled to receive as a result of the Capital Reorganization as if, on the effective date thereof, the Creditor has been the registered holder of the number of Common Shares to which the Creditor was theretofore entitled to purchase or receive upon the conversion of this Debenture. If necessary, as a result of any Capital Reorganization, appropriate adjustments shall be made in the application of the provisions of this Debenture with respect to the rights and interest thereafter of the Creditor to the end that the provisions of this Debenture shall thereafter correspondingly be made applicable as nearly as may reasonably be possible in relation to any shares or other securities or property thereafter deliverable upon the conversion of this Debenture.

- (f) If the Company takes any action affecting its Common Shares to which the foregoing provisions of this Section 5.6, in the opinion of the directors of the Company, acting in good faith, are not strictly applicable, or if strictly applicable would not fairly adjust the rights of the Creditor against dilution in accordance with the intent and purposes hereof, or would otherwise materially affect the rights of the Creditor hereunder, then the Company shall, subject to the approval of any stock exchange or quotation system on which the Common Shares are then listed and posted (or quoted) for trading, as applicable, execute and deliver to the Creditor an amendment hereto providing for an adjustment in the application of such provisions so as to adjust such rights as aforesaid in such manner as the directors of the Company may determine to be equitable in the circumstances, acting in good faith. The failure of the taking of action by the directors of the Company to so provide for any adjustment on or prior to the effective date of any action or occurrence giving rise to such state of facts will be conclusive evidence that the directors has determined that it is equitable to make no adjustment in the circumstances.

## 5.7 **Adjustment Rules**

The following rules and procedures shall be applicable to the adjustments made pursuant to Section 5.6 herein:

- (a) any Common Shares owned or held by or for the account of the Company shall be deemed not to be outstanding except that, for the purposes of Section 5.6 herein, any Common Shares owned by a pension plan or profit sharing plan for employees of the Company or any of its subsidiaries shall not be considered to be owned or held by or for the account of the Company;
- (b) the adjustments provided for in Section 5.6 herein are cumulative and shall apply to successive subdivisions, consolidations, dividends, distributions and other events resulting in any adjustment under the provisions of such item;
- (c) in the absence of a resolution of the board of directors of the Company fixing a record date for any dividend or distribution referred to in Section 5.6(b)(iii) herein, the Company shall be deemed to have fixed as the record date therefor the date on which such dividend or distribution is effected;
- (d) if the Company sets a record date to take any action and thereafter and before the taking of such action abandons its plan to take such action, then no adjustment to the Conversion Price will be required by reason of the setting of such record date;
- (e) as a condition precedent to the taking of any action which would require any adjustment to this Debenture evidenced hereby, including the Conversion Price, the Company must take any corporate action which may be necessary in order that the Company shall have unissued and reserved in its authorized capital and may validly and legally issue as fully paid and non-assessable all of the shares or other securities which the Creditor is entitled to receive on the conversion thereof in accordance with the provisions hereof;
- (f) forthwith, but no later than 14 days, after any adjustment to the Conversion Price, the Company shall provide to the Creditor a certificate of an officer of the Company certifying as to the amount of such adjustment and, in reasonable detail, describing the event requiring and the manner of computing or determining such adjustment;
- (g) any question that at any time or from time to time arises with respect to the amount of any adjustment to the Conversion Price or other adjustment pursuant to Section 5.6 herein shall be conclusively determined by a firm of independent chartered accountants (who may be the Company's auditors) and shall be binding upon the Company and the Creditor;
- (h) in case the Company, after the date of issue of this Debenture, takes any action affecting the Common Shares, other than an action described in Section 5.6 herein, which in the opinion of the directors of the Company would materially affect the rights of the Creditor, the Conversion Price will be adjusted in such manner, if any, and at such time, by action by the directors of the Company but subject in all cases

to any necessary regulatory approval, including approval of any stock exchange or quotation system on which the Common Shares are then listed and posted (or quoted) for trading, as applicable. Failure of the taking of action by the directors of the Company so as to provide for an adjustment on or prior to the effective date of any action by the Company affecting the Common Shares will be conclusive evidence that the directors of the Company has determined that it is equitable to make no adjustment in the circumstances; and

- (i) on the happening of each and every such event set out in Section 5.6 herein, the applicable provisions of this Debenture, including the Conversion Price, shall, *ipso facto*, be deemed to be amended accordingly and the Company shall take all necessary action so as to comply with such provisions as so amended.

#### **5.8 Notice of Special Matters**

The Company shall give notice to the Creditor, in the manner provided in Section 7.8(a), of its intention to fix a record date for any event mentioned in Section 5.6 which may give rise to an adjustment in the Common Shares which may be acquired pursuant to this Article Five, and, in each case, such notice shall specify the particulars of such event and the record date and the effective date for such event; provided that the Company shall only be required to specify in such notice such particulars of such event as shall have been fixed and determined on the date on which such notice is given. Such notice shall be given not less than 14 days prior to such applicable record date.

#### **5.9 Resale Restriction**

The Common Shares issuable upon exercise of the conversion rights set forth in this Article Five shall not be subject to any statutory hold period or other resale restriction other than as set forth in Section 2.5 of National Instrument 45-102 – *Resale of Securities*.

#### **5.10 U.S. Securities Matters**

The conversion rights provided for in this Article Five may not be exercised by or for a U.S. Person (as that term is defined in Regulation S of the U.S. Securities Act of 1933 (the “**1933 Act**”) or any person in the United State unless an registration statement with respect thereto is in effect under the 1933 Act and any applicable state securities laws, or there is an available exemption from the registration requirements of the 1933 Act and any applicable state securities laws and the holder has furnished an opinion of counsel reasonably satisfactory to the Company as to the availability of such registration exemptions.

### **ARTICLE SIX** **EVENTS OF DEFAULT**

#### **6.1 Events of Default.**

The occurrence of any of the following events shall constitute an “Event of Default” under this Debenture:

- (a) if an event of default occurs, which continues after the passage of any applicable cure period, under any agreement or instrument evidencing indebtedness of the Company in excess of \$1,000,000;
- (b) if the Company fails to pay when due of any Principal Amount or other amounts payable under this Debenture or any other Transaction Document and such default is not remedied for five (5) Business Days, provided that, for avoidance of doubt, it shall not be a default hereunder to the extent the Creditor exercises the Conversion Option under Article Five or issues a JV Election following the Maturity Date;
- (c) if the Company fails to perform, observe or comply with any covenant, obligation or condition contained in Section 3.2 of this Debenture;
- (d) if the Company fails to perform, observe or comply with any covenant, obligation or condition contained in this Debenture (excluding Section 3.2 hereof) or any other Transaction Document, and remains unremedied for a period of fifteen (15) days or is not otherwise waived;
- (e) if any representation or warranty made by the Company in this Debenture or other Transaction Documents is found to be false or incorrect and to the extent capable of being remedied is not remedied within fifteen (15) days;
- (f) if the Company (i) institutes proceedings under the *Companies Creditors' Arrangement Act* or any other bankruptcy, insolvency or analogous law; (ii) is adjudicated a bankrupt or insolvent; (iii) consents to (or fails to contest in good faith) the institution of bankruptcy or insolvency proceedings against it; (iv) makes (or serves notice of intention to make) any proposal under any Debtor Relief Laws; (v) consents (or fails to contest in good faith) to the filing of any such petition or to the appointment of a receiver of, or of any substantial part of, the property of the Company; (vi) makes a general assignment for the benefit of creditors; (vii) admits in writing its inability to pay its debts generally as they become due; (viii) takes any corporate action in furtherance of any of the aforesaid purposes;
- (g) if any action or proceeding is launched or taken to terminate the corporate existence of the Company, whether by winding-up, surrender of charter or otherwise;
- (h) if the Company ceases to carry on its business or makes or proposes to make any sale of its assets in bulk sale of its assets out of the usual course of its business;
- (i) if any proposal is made or any petition is filed by or against the Company under any law having for its purpose the extension of time for payment, composition or compromise of the liabilities of the Company or other reorganization or arrangement respecting its liabilities and such proposal or petition is not stayed or dismissed within thirty (30) days or if the Company gives notice of its intention to make or file any such

proposal or petition including an application to any court to stay or suspend any proceedings of creditors pending the making or filing of any such proposal or petition;

- (j) if any receiver, administrator, or manager of the property, assets or undertaking of the Company or a substantial part thereof is appointed, whether privately, pursuant to any statute, or by or under any judgment or order of any court;
- (k) if any proceedings are taken to enforce any Encumbrance affecting the Collateral or if a distress or any similar process be levied or enforced against the Collateral such proceedings are not dismissed or stayed within thirty (30) days after the commencement thereof;
- (l) the making by the Company of a general assignment for the benefit of its creditors;
- (m) there is a Change of Control.

Upon the occurrence and during the continuance of an Event of Default, following written notice from the Creditor to the Company, all Obligations shall become forthwith due and payable and the Creditor shall have all rights and remedies available to it at law or equity, including the right to commence legal action and proceedings (including enforcement proceedings) that the Lender, in its sole discretion, deems expedient.

## **6.2 Rights of the Creditor**

The Creditor, without exonerating in whole or in part the Company, may grant time, renewals, extensions, indulgences, releases and discharges to, may take securities from and give the same and any or all existing securities up to, may abstain from taking securities from or from perfecting securities of, may accept compositions from, and may otherwise deal with the Company and all other Persons and securities as the Creditor may see fit.

Nothing herein shall obligate the Creditor to extend or amend any credit to the Company or to any other Person.

## **ARTICLE SEVEN** **GENERAL**

### **7.1 Waiver.**

No act or omission by the Creditor in any manner whatever shall extend to or be taken to affect any provision hereof or any subsequent breach or default or the rights resulting therefrom save only an express waiver in writing. No waiver of any of the provisions of this Debenture shall be deemed to constitute a waiver of any other provisions (whether or not similar), nor shall such waiver constitute a waiver or continuing waiver unless expressly provided in writing duly executed by the party to be bound thereby. A waiver of default shall not extend to, or be taken in any manner whatsoever to affect the rights of the Creditor with respect to any subsequent default, whether similar or not. The Company waives every defence based upon any or all indulgences that may be granted to the Creditor.

## 7.2 **No Merger or Novation.**

Neither the taking of any judgment nor the exercise of any power of seizure or sale shall operate to extinguish the liability of the Company to pay the moneys owing hereby nor shall the same operate as a merger of any covenant herein contained or of any other Obligation, nor shall the acceptance of any payment or security constitute or create any novation.

## 7.3 **Confidentiality.**

- (a) All Confidential Information shall be treated as confidential by the Parties and shall not be disclosed to any other Person other than in circumstances where a Party has an obligation to disclose such information in accordance with Applicable Law, in which case, such disclosure shall only be made after consultation with the other Parties (if reasonably practicable and permitted by Applicable Law) provided that any public disclosure of such information shall always omit or redact the Redacted Information (the “**Redaction Requirement**”).
- (b) In the event that Applicable Law requires a Party to disclose Redacted Information, such disclosure shall only be made after consultation with the other Party and the Parties shall mutually agree on the applicable disclosure of the Redacted Information, each acting reasonably.
- (c) Notwithstanding the foregoing, each of the Parties acknowledges and agrees that:
  - (i) each of the Creditor and the Company may disclose Confidential Information, subject to the Redaction Requirement, to:
    - A. a person providing financing or funding to the Company or the Creditor, as applicable;
    - B. any prospective purchaser of the Creditor’s interest under this Debenture, together with such prospective purchaser’s financiers, consultants and advisors (financial and legal),

so long as, in each case, prior to receiving any such information the recipient enters into a confidentiality agreement with the disclosing Party pursuant to which the recipient provides a confidentiality undertaking in favour of the Company and the Creditor to maintain the confidentiality of the Confidential Information in a manner consistent with this Debenture;

- (ii) each of the Parties may disclose Confidential Information to their respective directors, officers and employees (and the directors, officers and employees of their respective Affiliates) and the directors, officers, partners or employees of any financial, accounting, legal and professional advisors of such Party and its Affiliates, as well as any contractors and subcontractors of such Party, provided that each of such individuals to whom Confidential Information is disclosed is advised of the confidentiality of such

information and is directed to abide by the terms and conditions of this Section 7.3;

The provisions of this Section 7.3 shall survive the discharge of the Obligations and shall apply indefinitely.

**7.4 Amalgamation.**

The Company acknowledges that if it amalgamates with any other company, corporation or corporations (a) the term "Company", where used herein shall extend to and include each of the amalgamating companies or corporations and the amalgamated entity, and (b) the term, "Obligations", where used herein shall extend to and include the Obligations of each of the amalgamating entities and the amalgamated entity.

**7.5 Creditor May Remedy Default.**

If the Company fails to do anything hereby required to be done by it, the Creditor may, but shall not be obliged to, do all or any such things, and all sums thereby expended by the Creditor shall form part of the Obligations, shall forthwith be payable by the Company, shall be secured by the Security Documents and shall have the benefit of the Encumbrances created thereby, but no such performance by the Creditor shall be deemed to relieve the Company from any default or Event of Default hereunder.

**7.6 Discharge and Satisfaction.**

Upon payment or satisfaction in full by the Company to the Creditor of all Obligations, these presents shall cease and become null and void, but the Creditor shall at the request and expense of the Company, execute and deliver to the Company a full release and discharge.

**7.7 Gross Up.**

If the Company or any of its Affiliates that are party to a Security Document (collectively, the "**Obligors**") or the Creditor is compelled by Applicable Law to make any withholding or deduction due to any tax (excluding any tax on the overall net income or capital of the Creditor) or if the Creditor is liable to pay tax in respect of any payment due or made by such Obligor, such Obligor will pay to the Creditor such additional amount as may be necessary in order that the payment actually received is equal to the payment that would otherwise have been received in the absence of such withholding or deduction or tax (including in the absence of any additional withholding or deduction or tax in respect of any additional amount payable pursuant to this Section).

**7.8 Notices.**

All notices, requests, demands or other communications (collectively, "**Notices**") by the terms hereof required or permitted to be given by one Party to the other Party, or to any other Person shall be given by e-mail as the primary and required form of notice with return receipt confirmed and, as a supplemental form of notice only, in writing by personal delivery or by registered mail, postage prepaid, to such other party at:

(a) to the Creditor at:

SCR-Sibelco NV

Plantin & Moretuslei, 1A  
2018 Antwerp, Belgium

Attention: Benny Loix  
Title: VP Treasury and M&A  
Email: *[redacted: personal information]*

And to:

Attention: Jair Amorim Rangel  
Title: EVP International  
Email: *[redacted: personal information]*

(b) to the Company at:

Avalon Advanced Materials Inc.  
Suite 1901 - 130 Adelaide Street West  
Toronto, Ontario M5H 3P5

Attention: Jim Jaques  
Email: *[redacted: personal information]*

or at such other address as may be given by such Party to the other Party hereto in writing from time to time. All such Notices shall be deemed to have been received when delivered or transmitted, or, if mailed, seventy-two (72) hours after 12:01 a.m. on the day following the day of the mailing thereof. If any Notice shall have been mailed and if regular mail service shall be interrupted by strikes or other irregularities, such Notice shall be deemed to have been received seventy-two (72) hours after 12:01 a.m. on the day following the resumption of normal mail service, provided that during the period that regular mail service shall be interrupted, all Notices shall be given by Personal delivery, by facsimile transmission or by e-mail or other electronic methods.

#### 7.9 **Invalidity of any Provisions.**

Any provision of this Debenture which is prohibited by the laws of any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition without invalidating the remaining terms and provisions hereof or thereof and no such invalidity shall affect the obligation of the Company to repay the Obligations. This Debenture and all its provisions shall enure to the benefit of the Creditor, its successors and permitted assigns and shall be binding upon the Company, its successors and assigns. Presentment, notice of dishonour, protest and notice of protest hereof are hereby waived.

#### 7.10 **Amendments.**

This Debenture may only be amended by written agreement signed by each of the Parties hereto.

#### 7.11 **Entire Agreement.**

This Debenture sets forth the entire understanding of the Parties with respect to the subject matter hereof and supersedes all existing agreements between them concerning such subject matter.

7.12 **Assignments.**

Neither Party may assign, transfer or deliver all or any part of its rights or obligations hereunder without the prior written consent of the other Party.

7.13 **No Notice of Trust.**

The Creditor or its legal representative will be regarded as exclusively entitled to the benefit of this Debenture and all persons may act accordingly and the Company shall not be bound to enter in the register notice of any trust or, except as by some court of competent jurisdiction ordered, to recognize any trust or equity affecting the title to this Debenture.

7.14 **Further Assurances.**

The Company shall, and shall cause each of its subsidiaries to, at the Company's expense and upon request of the Creditor, duly execute and deliver, or cause to be duly executed and delivered, to the Creditor such further instruments and do and cause to be done such further acts as may be necessary or proper in the reasonable opinion of the Creditor to carry out more effectively the provisions and purposes of this Debenture and the other Transaction Documents.

7.15 **Expenses.**

Whether or not the transactions contemplated by this Debenture shall be consummated, each Party shall pay its own out of pocket expenses, including the reasonable fees and disbursements of any expert or advisers (including, without limitation, lawyers) incurred in connection with the preparation, negotiation, execution, administration or interpretation of the Debenture, and any amendment, modification or waiver of any of the provisions thereof. The Company shall pay all costs and expenses (including legal fees) incurred by the Creditor, or its agents on its behalf, in connection with the protection and enforcement of the rights of the Creditor provided for in this Debenture and the other Transaction Documents. All statements, reports, certificates, opinions, appraisals and other documents or information required to be furnished to the Creditor by the Company under this Debenture shall be supplied by the Company without cost to the Creditor.

7.16 **Payments without Deduction.**

All payments to be made by the Company under this Debenture (whether on account of principal, interest, fees, costs or any other amount) shall be made in Canadian dollars and shall be made in freely transferable, immediately available funds and without set-off, withholding or deduction of any kind whatsoever, except to the extent required by Applicable Law.

7.17 **Execution.**

This Debenture may be executed in any number of counterparts, all of which when taken together shall constitute one agreement. Any signatory hereto may deliver an executed copy of this agreement by facsimile, electronic mail or electronic signature to the Creditor provided that in such event the Company shall promptly deliver to the Creditor an originally executed copy of this Debenture. Notwithstanding the foregoing, transmission of an executed signature page by facsimile, email or other electronic means is as effective as a manually executed counterpart of this Debenture.

[Signature Page to Follow]

**IN WITNESS WHEREOF** the Company has caused this Debenture to be executed as of the date first written above.

**AVALON ADVANCED MATERIALS INC.**

Per: "Zeeshan Syed"  
Name: Zeeshan Syed  
Title: President

Per: "Jim Andersen"  
Name: Jim Andersen  
Title: Chief Financial Officer and VP, Finance

I have authority to bind the Company.



## **SCHEDULE B ROYALTIES**

### **Calabras/Lutoda Royalty on Nechalacho “Lower Zone”**

There is a 3.0% NSR royalty on the Nechalacho Rare Earth Elements Project mineral rights below 150 metres below sea level, which is owned by the Company's wholly owned subsidiary 8110131 Canada Inc.

### **Fairservice/Willis Royalty on Separation Rapids**

There is a 2.0% NSR royalty on the Separation Rapids Property, which is owned by the Company's wholly owned subsidiary 8110131 Canada Inc.

### **Murphy Royalty**

There is a 2.5% NSR royalty on the original 5 leases at the Nechalacho Rare Earth Elements Project. The Company has a contractual right to buy out the royalty at the principal amount of \$150,000 compounded annually at the average Canadian prime rate from May 2, 1982 to the buyback date (which is currently approximately \$1.7 million), provided that, upon exercising the option, it extinguishes the royalty. Cheetah Resources Pty Ltd. can also buy out the royalty, provided that, upon exercising the option, it extinguishes the royalty.