

STEM ANIMAL HEALTH INC.

SUBSCRIPTION AGREEMENT

Made as of September 28, 2020

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SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT is made as of the 28th day of September, 2020 by and between: (i) STEM Animal Health Inc. ("STEM"), a corporation incorporated under the *Canada Business Corporations Act*; (ii) Kane Biotech Inc. ("Kane"), a corporation incorporated under the *Canada Business Corporations Act*; and (iii) Ecuphar NV (the "Investor"), a corporation formed under the laws of Belgium.

RECITALS:

WHEREAS the authorized capital of STEM consists of an unlimited number of Class A common shares and an unlimited number of Class B common shares (together, the "Shares");

AND WHEREAS the issued capital of STEM prior to the purchase of the Subscribed Securities (as such term is defined below) contemplated herein consists of 6,666 Class A common shares;

AND WHEREAS the Investor wishes to subscribe for 3,334 Class B common shares in the capital of STEM, which shares will constitute all of the issued and outstanding Class B common shares and not less than 33.4% of the Shares of STEM following Closing (as defined below), and STEM wishes to accept such subscription, upon and subject to the terms and conditions set forth herein.

AND WHEREAS the parties hereto wish to set forth the terms and conditions upon which such transactions shall be completed;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements herein contained the parties hereto covenant and agree as follows:

ARTICLE 1
INTERPRETATION

1.1 General Definitions

In this Agreement (including the recitals hereto), unless something in the subject matter or context is inconsistent therewith, the following terms have the following meanings:

- (a) "1933 Act" means the United States *Securities Act of 1933*, as amended;
- (b) "Act" means the *Canada Business Corporations Act*, as the same may be amended from time to time;
- (c) "Affiliate" means, with respect to a party, any Person that controls, is controlled by, or is under common control with such party, where "control" for the purpose of this definition means the possession, directly or indirectly, through one or more intermediaries, of the power to direct or cause the direction of the management or policies of a Person, whether through ownership of voting securities, controlling interests or similar arrangement;

- (d) “Agreement” means this agreement and all Exhibits attached hereto, as may be amended, supplemented or otherwise modified from time to time in accordance with its terms;
- (e) “Animalcare Services Agreement” means the master services agreement between the Investor and STEM to be made and entered into as of the date of this Agreement;
- (f) “Applicable Law” means all applicable laws, statutes, rules, regulations and guidelines that apply to the Development, Manufacture or Commercialization of the Products in the Territory or the performance of any party’s obligations under this Agreement, including, without limitation, all applicable standards or guidelines (including the latest regulatory guidance documents) promulgated by the appropriate regulatory authority in effect from time to time;
- (g) “arm’s length” has the meaning that it has for the purposes of the *Income Tax Act* (Canada);
- (h) “Articles” means STEM’s articles of incorporation, together with all amendments thereto;
- (i) “Asset Purchase Agreement” means the asset purchase agreement between Kane (as vendor) and STEM (as purchaser) made as of the date of this Agreement;
- (j) “Authorities” has the meaning set forth in Section 4.1(iv)(A) of this Agreement;
- (k) “Benefit Plan” means any plan providing for profit sharing, deferred compensation, incentives, health, dental, welfare, bonuses, retirement, unemployment compensation, insurance, severance, sick leave or vacation, or any other employee benefit plan of a similar nature, that is sponsored or maintained by or contributed to or required to be contributed to by STEM for the benefit of any of its employees, former employees or beneficiaries of any of them, whether oral or written, formal or informal, funded or unfunded, insured or uninsured, registered or unregistered (except, that, the term “Benefit Plan” shall not include any statutory plans with which STEM is required to comply, including the Canada/Québec Pension Plan or plans administered pursuant to applicable provincial health Tax, workers’ compensation, workers’ safety and insurance or employment insurance legislation);
- (l) “Board” means the board of directors of STEM;
- (m) “Business” means an animal health product business that specializes in the identification, research, Development, Commercialization, distribution, licensing and/or sale of Intellectual Property, biotechnologies or products with respect to the animal health market;
- (n) “Business Day” means any day, other than a Saturday or Sunday, on which commercial banks in Winnipeg, Manitoba and London, England are generally open for commercial banking business during normal banking hours;

- (o) "By-laws" has the meaning set forth in Section 3.1(a) of this Agreement;
- (p) "Canadian Securities Regulatory Authorities or Regulators" means the securities regulatory authorities or regulators of all of the provinces and territories of Canada, and "Canadian Securities Regulatory Authority or Regulator" means any one of them;
- (q) "Claim" means any cause of action, action, claim, demand, lawsuit, audit, proceeding or arbitration, including, for greater certainty, any proceeding or investigation by a Governmental Authority, which may give rise to a right to indemnification under Article 5;
- (r) "Closing" means the completion of the issue and sale by STEM of the Subscribed Securities to the Investor pursuant to Section 2.1 of this Agreement;
- (s) "Closing Date" means the date hereof;
- (t) "Collateral Documents" means, collectively, the Shareholders Agreement, the Option Agreement, the STEM License, the Kane Services Agreement, the Echuphar License, the Animalcare Services Agreement and the Asset Purchase Agreement (in each case, as amended);
- (u) "Commercialize" or "Commercialization" has the meaning given to such term in the STEM License.
- (v) "Contract" means any written, oral, implied or other agreement, contract, understanding, instrument, note, guarantee, indemnity, representation, warranty, deed, assignment, power of attorney, certificate, commitment, covenant, assurance or undertaking of any nature;
- (w) "Control" or "Controlled" means with respect to any Intellectual Property or materials, possession of the right (whether by sole or joint ownership, license or otherwise, other than pursuant to the license grants under the STEM License) to grant, without violating the terms of any agreement with a third party, a license, sublicense or other right in, to or under such Intellectual Property or materials;
- (x) "Develop" or "Development" has the meaning given to such term in the STEM License;
- (y) "Disclosure Letter" means the letter of exceptions delivered by STEM and Kane to the Investor;
- (z) "Ecuphar License" means the exclusive license and distribution agreement between the Investor and Kane to be made and entered into as of the date of this Agreement;
- (aa) "Governmental Authority" means (i) any domestic or foreign government, whether national, federal, provincial, state, territorial, municipal or local (whether administrative, legislative, executive or otherwise); (ii) any domestic or

foreign agency, authority, ministry, department, regulatory authority, court, central bank, bureau, board or other instrumentality having legislative, judicial, taxing, regulatory, prosecutorial or administrative powers or functions of, or pertaining to, government;

- (bb) "Indemnitee" means any party entitled to indemnification under Article 5 of this Agreement;
- (cc) "Indemnitor" means any party obligated to provide indemnification under Article 5 of this Agreement;
- (dd) "Intellectual Property" has the meaning given to such term in the STEM License;
- (ee) "Investor" has the meaning set out in the preamble to this Agreement;
- (ff) "Kane" has the meaning set out in the preamble to this Agreement;
- (gg) "Kane's Public Disclosure Record" means all information, reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) filed by or on behalf of Kane since January 1, 2020 with any Canadian securities regulatory authority up to the date hereof that are available to the public on SEDAR;
- (hh) "Kane Services Agreement" means the master services agreement between Kane and STEM to be made and entered into as of the date of this Agreement;
- (ii) "Kane Shares" means common shares of Kane;
- (jj) "Know-How" has the meaning given to such term in the STEM License;
- (kk) "Licensed IP" has the meaning given to such term in the STEM License;
- (ll) "Licensed Patent" has the meaning given to such term in the STEM License;
- (mm) "Loss" means any loss, liability, damage, cost, expense, penalty, assessment, tax, fine or charge, resulting from or arising out of any Claim, including the costs and expenses of any legal proceeding, judgment or settlement or compromise relating thereto and all interest, punitive damages, fines and penalties and reasonable legal fees and expenses incurred in connection therewith, including loss of profits and consequential damages;
- (nn) "Manufacture" has the meaning given to such term in the STEM License;
- (oo) "Market" has the meaning given to such term in the STEM License;
- (pp) "Mass Retail Market" has the meaning given to such term in the STEM License;
- (qq) "Material Adverse Effect" means any change, development, action, effect, circumstance, event or occurrence (actual or potential) that, individually or in the

aggregate, has had or would reasonably be expected to have an adverse effect (stated in monetary terms) on the assets, liabilities, business, operations or financial condition of STEM exceeding \$100,000 in total;

- (rr) "Material Contract" has the meaning set forth in Section 3.1(u) of this Agreement;
- (ss) "NI 45-106" means National Instrument 45-106 *Prospectus Exemptions*;
- (tt) "Notice" has the meaning set forth in Section 7.7 of this Agreement;
- (uu) "Option Agreement" means the option agreement among Kane, STEM and the Investor dated as of the date hereof and in the form attached hereto as Exhibit "B";
- (vv) "Patents" has the meaning given to such term in the STEM License;
- (ww) "Person" means any individual, corporation, limited liability company, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority or other entity;
- (xx) "Personal Information" has the meaning set forth in Section 3.1(aa) of this Agreement;
- (yy) "PIPEDA" has the meaning set forth in Section 3.1(aa) of this Agreement;
- (zz) "Practice" has the meaning given to such term in the STEM License;
- (aaa) "Product Liability Claim" has the meaning set forth in Section 3.1(r) of this Agreement;
- (bbb) "Products" has the meaning given to such term in the STEM License;
- (ccc) "Purchased Assets" has the meaning given to such term in the Asset Purchase Agreement;
- (ddd) "Securities Act" means *The Securities Act* (Manitoba);
- (eee) "Securities Laws" means Applicable Law governing securities in the relevant jurisdiction, all as amended from time to time including in each Canadian province or territory, the Securities Act and regulations thereunder, national instruments of the Canadian Securities Regulatory Authorities or Regulators together with their companion policies and the multilateral instruments, local rules, policies, blanket orders and other instruments in force in the province or territory;
- (fff) "Shareholders Agreement" means the unanimous shareholders agreement of STEM in the form attached hereto as Exhibit "A";
- (ggg) "Shares" has the meaning set forth in the recitals hereto;

- (hhh) “STEM” has the meaning set out in the preamble to this Agreement;
- (iii) “STEM License” means the Intellectual Property License Agreement between Kane and STEM dated as of the date hereof;
- (jjj) “Subscribed Securities” has the meaning set forth in Section 2.1(a) of this Agreement;
- (kkk) “Subscription Price” has the meaning set forth in Section 2.1(a) of this Agreement;
- (lll) “Tax Legislation” means collectively, the *Income Tax Act* (Canada) and all federal, provincial, state, municipal, county, territorial or other tax statutes including all treaties, conventions, case law, interpretation bulletins, circulars and releases, rules, regulations, orders and decrees of any jurisdiction;
- (mmm) “Tax Returns” means all reports, declarations, claims for refund, information return, returns, schedules, elections, notices, amendments and other documents required to be filed under the provisions of any applicable Tax Legislation and any tax forms required to be filed, whether in connection with a tax return or not, under any provisions of any applicable Tax Legislation;
- (nnn) “Taxes” means any tax, duty, fee, royalty, levy, impost, assessment, deduction, charge or withholding, any instalments and all liabilities with respect thereto including any penalty and interest payable with respect thereto, levied, imposed or assessed from time to time by any Governmental Authority or taxing authority, domestic or foreign, and shall include all stamp, documentary, property, land transfer, alternative minimum, value added, income, gross receipt, gross profits, production, commodity, occupation, excise, sales, goods and services, harmonized sales, transfer, franchise, capital, payroll, employer health, and other taxes and assessments of any kind whatsoever imposed on or assessed with respect to or measured by or charged against or attributable to any Person, including employment insurance premiums, Canada or provincial pension plan payments, workers’ compensation payments and customs duties, together with any interest, penalties, additions to tax or additional amounts imposed by any Governmental Authority;
- (ooo) “Territory” means worldwide;
- (ppp) “Time of Closing” means 1:00 p.m. (Winnipeg time) on the Closing Date;
- (qqq) “TSXV” means the TSX Venture Exchange; and
- (rrr) “TSXV Approval” has the meaning set forth in Section 6.1(a) of this Agreement.

1.2 Headings, etc.

The division of this Agreement into Articles, Sections, Sub-sections, Paragraphs, Subparagraphs and Clauses and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “this Agreement”,

“hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section, Sub-section, Paragraph, Subparagraph, Clause or other portion hereof and include any agreement or instrument supplemental or ancillary hereto.

1.3 Number, etc.

Words importing the singular number only shall include the plural and vice versa, and words importing the masculine gender shall include the feminine and neutral genders and vice versa.

1.4 Currency

Unless otherwise indicated all dollar amounts referred to in this Agreement, including the symbol “\$”, refer to lawful money of Canada.

1.5 Additional Rules of Interpretation

- (a) **Persons** – Unless the context otherwise requires, references in this Agreement to a “person” are to be broadly interpreted and shall include an individual, sole proprietorship, body corporate, unlimited liability company, partnership, limited liability partnership, joint venture, trust, unincorporated association, unincorporated syndicate, any Governmental Authority, regulatory authority, governmental department, agency, commission, board, tribunal, dispute settlement panel or body, bureau, court and any other legal or business entity and, where the context requires, any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;
- (b) **Trade Meanings** - Unless otherwise defined herein, words or abbreviations that have well-known trade meanings are used herein with those meanings.

1.6 Knowledge

Where any representation, warranty or other statement in this Agreement is expressed to be made by:

- (a) STEM to its knowledge or is otherwise expressed to be limited in scope to matters known to STEM or of which STEM is aware, it shall mean such knowledge, information or belief of the Chief Executive Officer and/or Chief Financial Officer of STEM, after making reasonable enquiries with respect to the relevant matter; and
- (b) Kane to its knowledge or is otherwise expressed to be limited in scope to matters known to Kane or of which Kane is aware, it shall mean such knowledge, information or belief of the Chief Executive Officer and/or Chief Financial Officer of Kane, after making reasonable enquiries with respect to the relevant matter.

1.7 Exhibits

The following are the Exhibits attached hereto and incorporated in this Agreement by reference and deemed to be part hereof:

- Exhibit "A" - Shareholders Agreement
Exhibit "B" - Option Agreement

ARTICLE 2
PURCHASE AND SALE OF SHARES

2.1 Subscription

(a) Subject to the terms and conditions hereof (including, without limitation the satisfaction of the closing conditions set forth in Article 6 of this Agreement) at the Closing, STEM shall issue and sell to the Investor, and the Investor shall purchase, an aggregate of 3,334 Class B common shares (the "Subscribed Securities"), which shall be purchased at a price of \$299.94 per share, for an aggregate subscription price (the "Subscription Price") of \$1,000,000.

(b) The Closing shall take place remotely via the exchange of documents and signatures at the Time of Closing. On the Closing Date, at the Time of Closing, STEM shall deliver to the Investor a certificate representing the Subscribed Securities to be delivered to the Investor against delivery to MLT Aikins LLP in trust on behalf of STEM of the Subscription Price for the Subscribed Securities by certified cheque, bank draft, wire transfer or other immediately available funds payable to the account of MLT Aikins LLP in trust on behalf of STEM.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF STEM AND KANE

3.1 STEM's Representations and Warranties

STEM and Kane, jointly and severally, represent and warrant to the Investor as of the Time of Closing as follows, and acknowledges that the Investor is relying on such representations and warranties in connection with the transactions contemplated herein, including, without limitation, the purchase of the Subscribed Securities.

- (a) Incorporation and Organization of STEM.
- (i) STEM is a corporation duly incorporated, organized and validly existing under the laws of Canada, and is in good standing under the laws of such jurisdiction. STEM has full corporate power, authority and capacity: (i) to own and operate its properties and assets; (ii) to carry on the Business as presently conducted and proposed to be conducted; and (iii) to execute and deliver this Agreement, and the Collateral Documents, and to perform all obligations contemplated herein and therein, including the authorization, issue, sale and delivery of the Subscribed Securities.
 - (ii) STEM has delivered to the Investor or legal counsel for the Investor true and complete copies of the Articles and the by-laws of STEM (the "By-laws"), including any and all amendments thereto, and such Articles and By-laws as so amended are in full force and effect.

(b) Qualification.

STEM is duly qualified or licensed to carry on business in every jurisdiction in which the nature of the Business or the property owned, leased or licensed by STEM makes such qualification or license necessary and:

- (i) it holds all material licences required by Applicable Law to be held by it, all of which are in good standing and in full force and effect, and: (A) all amounts required to have been paid for the issuance and maintenance thereof have been paid; (B) all provisions of such material licences have been complied with; and (C) there does not exist any state of facts or other circumstances in relation to such material licences which, after notice or lapse of time or both, or otherwise, would constitute or result in a default under, or breach of, any of the terms, conditions and provisions thereof;
- (ii) it has not received any notifications stating or alleging that its business has not been, or is not being, conducted in compliance with all laws applicable to it in each jurisdiction in which its business is now conducted; and
- (iii) except for any non-compliance which does not have a Material Adverse Effect, its business and operations have been, and are now being, conducted in compliance with the Applicable Law of each jurisdiction in which it carries on business.

(c) Authorized and Issued Capital.

The authorized capital of STEM consists of an unlimited number of Shares. As of the date hereof, there are 6,666 Class A common shares and no class B common shares issued and outstanding. All of the issued and outstanding Shares of STEM have been duly authorized and issued as fully paid and non-assessable. All issued and outstanding Shares of STEM are owned by Kane. Upon receipt of payment for the Subscribed Securities and the issuance thereof issued in accordance with this Agreement, immediately after the Closing, all of the issued and outstanding Shares of STEM will have been duly authorized and issued as fully paid and non-assessable.

(d) Other Securities.

At the date hereof, there do not exist any:

- (i) outstanding securities of STEM convertible or exchangeable into any Share or Shares in the capital of STEM;
- (ii) other than the rights of the Investor under the Option Agreement, outstanding subscriptions, options, warrants, calls, commitments or other Contracts obligating STEM to allot or issue any of its securities of any class or kind or to create any additional class or series of shares;

- (iii) Contracts by which STEM is bound to repurchase, redeem or retire any of its securities, or make any other distribution with respect thereto;
- (iv) stock option plans, stock purchase plans, phantom stock option plans or stock appreciation rights of STEM or similar compensation plans or rights; or
- (v) price protection, price adjustment, anti-dilution or other similar rights attached to any securities of STEM.

(e) Compliance with Securities Laws.

All the outstanding securities of STEM have been offered, issued and sold in compliance with all applicable Securities Laws, in distributions exempt from the prospectus and registration requirements of applicable Securities Laws, and all notices and filings in respect thereof, if any, have been made by STEM within the time periods and in the manner required by applicable Securities Laws.

(f) Authorization of Transaction.

The entering into, execution and delivery of this Agreement, the Collateral Documents and all other agreements or other instruments contemplated hereby and thereby, and the consummation of the transactions herein or therein contemplated, including the issue, sale and delivery of the Subscribed Securities, has been duly authorized by all necessary corporate action on behalf of STEM, and this Agreement, and each of the Collateral Documents to which it is a party, has been duly and validly executed and delivered by STEM and is a legal, valid and binding obligation of STEM, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally.

(g) Issuance of the Subscribed Securities.

On the issuance thereof pursuant to the terms of this Agreement, the Subscribed Securities shall be validly created and issued to the Investor as fully paid and non-assessable shares in the capital of STEM. The Subscribed Securities, as and when issued: (A) shall be free of liens and encumbrances imposed by or through STEM; (B) subject to restrictions set out in the Shareholders Agreement or this Agreement, such restrictions as are set out in the Articles, and restrictions under applicable Securities Laws, shall be free of restrictions on transfer; and (C) provided that the representations and warranties of the Investor herein are true and correct on the Closing Date, shall be issued in compliance with all applicable Securities Laws as are currently in effect. No Person has any right of first refusal or any pre-emptive rights, or any other rights restricting the issuance of the Subscribed Securities.

(h) Shareholder Agreements.

Other than as set forth in the Shareholders Agreement, and the Articles, there is no Contract between STEM and any Person, or between any Persons (including, without limitation, shareholders or creditors of STEM) that relates to or affects the management of STEM or restricts the ability of STEM to issue securities or the ability of shareholders of STEM to freely transfer or alienate any outstanding securities of STEM or securities of STEM that may hereafter be issued, or that creates a voting trust, voting agreement, pooling agreement, drag-along, right of first refusal, pre-emptive right or proxy

with respect to any of the outstanding securities of STEM or securities of STEM that hereafter may be issued.

(i) Conflicting Instruments.

The execution and delivery by STEM of this Agreement together with any other documentation associated herewith (including the Collateral Documents to which it is a party), and the consummation by STEM of the transactions contemplated herein or therein, will not conflict with, or result in the violation of, or a default under, any Applicable Law, rule or regulation, any of the terms and provisions of the Articles or By-laws of STEM or of any Contract to which STEM is a party or by which it is bound, or cause the rights of any party (including any right to the vesting of purchase rights with respect to any outstanding securities or securities which hereafter may be issued) to any such Contract to accelerate according to the terms of such Contract.

(j) Subsidiaries and Other Interests.

STEM has no subsidiaries, is not and has not been a partner in a partnership, is not and has not participated in any joint venture, and does not own, and has not agreed or become bound to acquire any securities issued by, or acquire any equity or ownership interest in, any other business or Person. STEM is not subject to any obligation or requirement to provide funds to or to make any investment in any business or Person by way of loan, capital contribution or otherwise.

(k) Minute Books.

The minute books of STEM have been maintained in compliance with all Applicable Law in all material respects, and have been made available to the Investor or counsel to the Investor and contain all Articles, By-laws and resolutions and a complete and accurate record of all meetings and actions of the Board and the sole shareholder of STEM since the date of incorporation of STEM, and reflect all transactions referred to in such proceedings accurately up until the Time of Closing. There are no filings or applications outstanding or proceedings underway in relation to the Articles or By-laws of STEM, and the share ledgers and registers of STEM are complete and reflect all issuances, transfers, repurchases and cancellations of shares in the capital of STEM.

(l) Compliance With Laws.

STEM is conducting the Business in compliance in all material respects with all Applicable Law, rules and regulations of each jurisdiction in which the Business is carried on, and is not in breach in any material respect of any such laws, rules or regulations, except where the failure to do so in any such case or taken together would not result in a Material Adverse Effect.

(m) Tax Matters.

- (i) STEM is not a “non-resident” within the meaning of the term in the *Income Tax Act* (Canada).
- (ii) STEM has duly and timely filed all Tax Returns required to be filed by it as of the date hereof. All such Tax Returns, and all materials accompanying such Tax Returns, are true, correct and complete in all material respects and contain accurate disclosure. STEM has paid

all Taxes which are due and payable by it on or prior to the date hereof, and all governmental or municipal charges or levies, penalties, interest and fines in respect of such Taxes due and payable by it on or prior to the date hereof.

(n) Property & Assets.

STEM has good and marketable title to all of its properties and assets free and clear of all liens or encumbrances, except as set forth in Schedule 3.1(n) of the Disclosure Letter. Such properties and assets constitute all of the properties and assets necessary to conduct the Business as currently conducted or as proposed to be conducted. All machinery and equipment included in such properties and assets is in good condition and repair except for reasonable wear and tear, all inventory included in such property and assets is saleable and all leases of real or personal property to which STEM is a party are fully effective and afford STEM peaceful and undisturbed possession of the subject matter of the lease. STEM is not in violation of any zoning, building or safety ordinance, regulation or requirement or other law or regulation applicable to the operation of owned or leased properties that is likely to impede the normal operation of the Business. STEM does not own any real property.

(o) Liabilities and Debt Instruments.

Except for the Assumed Liabilities (as defined in the Asset Purchase Agreement), STEM does not have, has never had and will not have immediately after the Time of Closing or the consummation of the transactions contemplated by the Asset Purchase Agreement or the STEM License, any liabilities, obligations or commitments (including, without limitation, indebtedness, Tax liabilities, guarantees, indemnifications, surety or similar obligations), whether accrued, absolute, contingent or otherwise. STEM is not a party to or bound by or subject to: (i) any bond, debenture, promissory note, credit facility or other Contract evidencing indebtedness for borrowed money; or (ii) any agreement or Contract to create, assume or issue any of the foregoing. STEM is not in default under any obligation (contingent or otherwise) in respect of borrowed money or pursuant to any Contract referred to above, and none of STEM's debts or liabilities is guaranteed by any other Person.

(p) Employee Benefits.

Except as set forth in Schedule 3.1(p) of the Disclosure Letter, STEM has no Benefit Plans.

(q) Environmental, Health and Safety Matters.

The operations of STEM (as well as any property or assets of STEM whether or not used in carrying on of the Business) are not in, and have not been in, violation of any Applicable Law, regulations, permits, licences, approvals, policies, guidelines or orders of any governmental or municipal authority relating to environmental, health or safety matters, including the release of hazardous substances.

(r) Warranties and Product Liabilities.

Neither Kane nor STEM has given any guarantee or warranty in respect of any products (including test, trial or prototype stage products) or services relating to the Business as conducted by Kane or STEM (as applicable) or to any of the Purchased Assets or the Licensed IP to any Person. There are no current or pending or, to the knowledge of STEM or Kane, threatened, Claims against STEM or, in respect

of, relating to or affecting any Purchased Asset or Licensed IP, Kane, relating to any service provided, or product manufactured, sold, licensed, or distributed, whether on account of any express or implied warranty, property damage or personal injury or otherwise (“**Product Liability Claim**”), and to the knowledge of STEM or Kane, there is no basis for any Product Liability Claims against any STEM or, in respect of, relating to or affecting any Purchased Asset or Licensed IP, Kane.

(s) Litigation.

There is no lawsuit, Claim, action, arbitration, investigation or proceeding which is against STEM or, in respect of, relating to or affecting any Purchased Asset or Licensed IP, Kane (or any of their respective properties or assets) pending or, to the knowledge of STEM or Kane, threatened against STEM or, in respect of, relating to or affecting any Purchased Asset or Licensed IP, Kane. Neither STEM nor, in respect of, relating to or affecting any Purchased Asset or Licensed IP, Kane is subject to any outstanding order, writ, injunction, judgment or decree of any Governmental Authority or arbitrator.

(t) Consents.

Other than the TSXV Approval or as set forth in Schedule 3.1(t) of the Disclosure Letter, there is no other authorization, consent or approval of, or filing with or notice to, any third party or any governmental agency, regulatory body or court that is required to be obtained or performed by Kane or STEM in connection with the execution, delivery or performance of this Agreement or any Collateral Document or, in the case of STEM only, the issuance, sale and delivery of the Subscribed Securities.

(u) Material Contracts.

All Contracts that, individually or in the aggregate, are material to the Business, operations, properties, assets, conditions, or prospects, financial or otherwise, of STEM are listed on Schedule 3.1(u) of the Disclosure Letter (collectively, the “Material Contracts”). The Material Contracts are the only Contracts necessary to conduct the Business as currently conducted or as proposed to be conducted and STEM is not and has never been party to any Contract other than the Material Contracts. Each Material Contract: (i) is valid and binding upon Kane or STEM (as applicable) and, to the knowledge of Kane and STEM, the other parties thereto; (ii) is in full force and effect and unamended; and (iii) has not been breached by STEM or Kane (whether prior to or following the consummation of the transactions contemplated by the Asset Purchase Agreement) or, to the knowledge of Kane and STEM, any other party thereto, nor is there any event or condition which, with the passage of time would constitute a material default or a material breach by Kane and/or by STEM or, to the knowledge of Kane and STEM, any third party. No party to any of the Material Contracts has indicated to Kane or to STEM, nor does Kane or STEM have any knowledge that any party to any of the Material Contracts shall indicate, that it intends to cancel, withdraw, breach, modify or amend any of same. True and complete copies of each Material Contract (including each Collateral Document) have been provided to the Investor.

(v) No Finders’ Fee.

No broker, finder, agent or similar intermediary has acted on behalf of STEM in connection with this Agreement or the transactions contemplated hereby, and there is no brokerage commission, finders’ fee or similar fee payable by STEM or the Investor in connection therewith.

(w) No Sale Agreements or Business Activities.

Other than the Ecuphar License, there is no Contract or option, or any right or privilege capable of becoming a Contract or option, for the purchase of the Business or any of the assets of STEM. STEM has not initiated or maintained any proposals or proceedings with respect to its sale, merger, amalgamation, consolidation, liquidation or reorganization, other than the Option Agreement.

STEM does not conduct, and has never conducted, any activity or operation or engaged in any activity other than directly in connection with the consummation of the transactions contemplated by this Agreement, the Asset Purchase Agreement and the STEM License (for clarity, the Investor acknowledges that STEM will enter into the remaining Collateral Documents on the date of this Agreement).

(x) Material Information.

No representation or warranty by STEM contained in this Agreement or any agreement or instrument contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not false or misleading. To the knowledge of Kane and STEM, there is no fact or circumstance relating specifically to the Business or condition of STEM that could reasonably be expected to result in a Material Adverse Effect and that is not disclosed herein or in the Disclosure Letter.

(y) Employees.

- (i) Effective as at Closing, STEM will have two full-time employees, and no independent contractors.
- (ii) No present or former employee or independent contractor of STEM has violated any term of any employment Contract, consulting agreement, non-competition or non-solicitation agreement, patent or other proprietary information agreement or similar Contract with, or any fiduciary duty in favour of, a former employer of such employee or independent contractor or any other third party during the period when such employee or independent contractor was employed or engaged by STEM or Kane. Neither Kane nor STEM has received any notice from any third party alleging that such a violation has occurred. The continued employment or engagement by STEM of its present employees or contractors shall not result in any such violation.
- (iii) Except as set forth in Schedule 3.1(y) of the Disclosure Letter, there have been no Claims of wrongful dismissal, or complaints, inquiries or Claims made against Kane or STEM resulting from the violation or alleged violation of any applicable employment law or regulation, including any employment equity, human rights, labour relations, workers' compensation, pay equity, health or safety law or regulation, or any agreement or arrangement with respect to Benefit Plans with respect to the employees and independent

contractors of STEM. To the knowledge of Kane and STEM, nothing has occurred which could reasonably be expected to lead to a Claim against STEM under any such laws. There are no pending nor, to the knowledge of Kane and STEM, threatened Claims against STEM or Kane under any such laws relating to the employees and independent contractors of STEM. There are no outstanding decisions, orders or settlements or pending settlements which place any obligation upon STEM to do or refrain from doing any act.

- (iv) STEM and Kane have complied with all applicable federal, provincial, state and any other Applicable Law and regulations respecting employment and employment practices, terms and conditions of employment, wages and hours and other laws related to employment of the employees of STEM, and there are no arrears in the payments of wages, withholding Taxes, Canada Pension Plan premiums, employment insurance premiums or other similar obligations.
- (v) No union has bargaining rights with respect to any employees of STEM. STEM is not a party to any collective bargaining agreement, letter of understanding, letter of intent or other written communication with any bargaining agent, union or association which may qualify as a union, which would apply to any employees. To the knowledge of Kane and STEM, there are no threatened or apparent organizational efforts to establish a collective bargaining or similar arrangement with respect to any of STEM's employees. To the knowledge of Kane and STEM, there are no labour relations issues with the employees of STEM as a whole that could lead to a Material Adverse Effect.

(z) Intellectual Property.

(i) As of the effective date of the STEM License, Kane is the exclusive owner of all right, title and interest in and to the Licensed IP or otherwise is entitled to grant the rights and licenses granted to STEM under the STEM License. Without limiting the foregoing:

(1) as of the effective date of the STEM License, Kane's grant of the STEM License does not conflict with or violate any Applicable Law, require the consent, approval, or authorization of any Governmental Authority or third party, or require the provision of any payment or other consideration by STEM or its sublicensees to any third party;

(2) throughout the term of the STEM License, Kane's grant of the STEM License shall not conflict with or violate any Applicable Law which may be in force at the time of such grant, require the consent, approval, or authorization of any Governmental Authority or third party, or require

the provision of any payment or other consideration by STEM or its sublicensees to any third party;

(3) Kane has and throughout the term of the STEM License shall retain the unconditional and irrevocable right, power, and authority to grant the STEM License;

(4) Kane has not granted and shall not grant any licenses or other right, title, or interest under or relating to the Licensed IP, including the Licensed Patents, that does or will conflict with or otherwise affect the STEM License;

(5) it has all rights in and to the Licensed IP necessary to grant the rights and licenses granted to STEM under the STEM License, and to use and provide all Licensed IP for STEM's use and enjoyment as specified in the STEM License; and

(6) the Licensed IP is not subject to any agreement between Kane and any third party or to any outstanding order, judgment or decree of any court or administrative agency that restricts it in any way from granting to STEM the rights and license granted to STEM under the STEM License;

(b) it has not granted as of the effective date of the STEM License, and shall not grant during the term of the STEM License, any right, option, license or interest in or to the Licensed IP or Products that would conflict with the rights or licenses granted to STEM under the STEM License;

(c) as of the effective date of the STEM License, neither Kane nor its Affiliates or their licensees have received written notice of, nor have any knowledge of, any threatened or pending Claims against them that, if determined adversely, would have an adverse effect upon Kane's ability to grant to STEM the rights under the Licensed IP or Products set out in the STEM License, or upon the ability of STEM to fully utilize the rights to the Licensed IP and Products granted in the STEM License or Kane's right to enter into and perform its obligations under the STEM License. Without limiting the foregoing, there is no settled or, to the best of Kane's knowledge, pending or threatened Claim against Kane or any of its Affiliates:

(1) alleging the unpatentability, invalidity, misuse, unregistrability, unenforceability, or noninfringement of, or error in any Licensed IP, including any Licensed Patent;

(2) challenging Kane's right to Practice or license any Licensed IP, including any Licensed Patent;

(3) challenging Kane's right to Develop, Manufacture or Commercialize the Products;

(4) alleging any adverse right, title, or interest with respect to any Licensed IP, including any Licensed Patent or the Development, Manufacture or Commercialization of the Products; or

(5) relating to any Licensed IP that is the subject of, to be licensed under, or to be used directly or indirectly pursuant to the STEM License;

(d) to the best of Kane's knowledge, no prior art or other information exists that would adversely affect the validity, enforceability, term, or scope of any Licensed Patent; and

(e) as of the effective date of the STEM License, the Licensed Patents are all the Patents Controlled by Kane that relate to the Products or, to the best of Kane's knowledge, are necessary or useful for STEM to Develop, Manufacture or Commercialize the Products in the Market in the Territory.

(aa) Privacy & Data Security.

In connection with its collection, storage, transfer (including, without limitation, any transfer across national borders), processing and all other uses of any personally identifiable information from any individuals, including, without limitation, relating to any Affiliates, vendors, channel partners, or any customers, prospective customers or employees of itself or of any of its Affiliates, vendors or channel partners, and any other third parties, and such other information as defined under the *Personal Information Protection and Electronic Documents Act (Canada)* ("PIPEDA") and other similar laws (collectively "Personal Information"), STEM is and has and Kane, in respect of the Purchased Assets and the Licensed IP, is and has, in all material aspects, been in compliance with: (i) all applicable privacy laws in all relevant jurisdictions; (ii) its privacy and data security policies; and (iii) the requirements of any contract or codes of conduct to which it is or was at the relevant time party. STEM has and, in respect of the Purchased Assets and the Licensed IP, Kane has and for the period prior to the Closing had commercially reasonable, and at least commensurate with industry standards, physical, technical, organizational and administrative security measures, including but not limited to credentials, testing protocols, and written policies, in place to protect all Personal Information Kane and/or STEM (as applicable) collects, stores, transfers, processes and otherwise uses, whether collected by it or on its behalf, or otherwise received from any Person, against insecure use, misuse and unauthorized access, use and/or disclosure. STEM is and has and Kane, in respect of the Purchased Assets and the Licensed IP, is and has, in all material aspects, been in compliance with all laws relating to data protection, security, loss, theft, breach and notification obligations. To the knowledge of Kane and STEM, Kane and/or STEM (as applicable) has or had all requisite consents to use all data used in the Business, including but not limited to Personal Information. Neither STEM nor, in respect of the Purchased Assets and Licensed IP, Kane has received any notice of noncompliance with, a Claim relating to a violation of, or, to the knowledge of Kane and STEM, experienced a material breach of, data, including Personal Information, or any privacy laws.

(bb) Agreements Restricting Business.

Neither Kane nor STEM is a party to any Contract, agreement or arrangement that restricts the freedom of STEM to carry on the Business, including any Contract that contains covenants by Kane or STEM not to compete in any line of business competitive with or similar to the Business with any other Person.

(cc) Private Issuer.

STEM is a “private issuer” under applicable Securities Laws, meaning:

- (i) it is not a reporting issuer under applicable Securities Laws;
- (ii) its Articles contain restrictions on the transfer of the Shares; and
- (iii) the Shares are beneficially owned by not more than 50 Persons, not including employees and former employees of STEM.

3.2 Kane’s Representations and Warranties

Kane represents and warrants to the Investor as of the Time of Closing on the Closing Date as follows, and acknowledges that the Investor is relying on such representations and warranties in connection with the transactions contemplated herein, including, without limitation, the purchase of the Subscribed Securities.

(a) Incorporation and Organization of Kane.

- (i) Kane is a corporation duly incorporated, organized and validly existing under the laws of Canada, and is in good standing under the laws of such jurisdiction. Kane has full corporate power, authority and capacity: (i) to own and operate its properties and assets; (ii) to carry on its business as presently conducted and proposed to be conducted; and (iii) to execute and deliver this Agreement, and the Collateral Documents, and to perform all obligations contemplated herein and therein.
- (ii) Kane has delivered to the Investor or legal counsel for the Investor true and complete copies of its articles and by-laws, including any and all amendments thereto, and such articles and by-laws as so amended are in full force and effect.

(b) Qualification.

Kane is duly qualified or licensed to carry on business in every jurisdiction in which the nature of the Business or the property owned or leased by Kane makes such qualification or license necessary and:

- (i) it holds all material licences required by Applicable Law to be held by it, all of which are in good standing and in full force and effect, and: (A) all amounts required to have been paid for the issuance and maintenance thereof have been paid; (B) all provisions of such material licences have been complied with; and (C) there does not exist any state of facts or other circumstances in relation to such material licences which, after notice or lapse of time or both, or otherwise, would constitute or result in a default under, or breach of, any of the terms, conditions and provisions thereof;

- (ii) it has not received any notifications stating or alleging that its business has not been, or is not being, conducted in compliance with all Applicable Laws in each jurisdiction in which its business is now conducted; and
- (iii) except for any non-compliance which does not have a Material Adverse Effect, its business and operations have been, and are now being, conducted in compliance with the Applicable Law of each jurisdiction in which it carries on business.

(c) Authorized and Issued Capital.

The authorized and issued share capital of Kane consists of an unlimited number of Kane Shares. As at the date hereof, 108,613,535 Kane Shares are issued and outstanding.

(d) Kane Shares Listed.

- (i) Kane is a “reporting issuer” under Securities Laws in British Columbia, Alberta, Saskatchewan and Manitoba. The Kane Shares are listed and posted for trading on the TSXV under the symbol “KNE”. Kane is not on a list of reporting issuers in default under the Securities Laws of any Canadian province and is not in material default under the applicable listing rules and regulations of the TSXV. There is no delisting, suspension of trading in or cease trading order with respect to any securities of Kane.
- (ii) As of the date of this Agreement, Kane has not taken any action to cease to be a reporting issuer in any Canadian province nor has Kane received notification from any securities authority seeking to revoke the reporting issuer status of Kane.
- (iii) Kane has made all applicable securities filings on a timely basis and has complied in all material respects with all applicable requirements of Securities Laws as in effect on the date each such document was filed.

(e) No Material Changes.

Since March 31, 2020 through the date hereof, other than as disclosed in Kane’s Public Disclosure Record: (i) there has been no material change in the assets, liabilities, obligations (absolute, accrued, contingent or otherwise), business, condition (financial or otherwise), properties, capital or results of operations of; and (ii) there have been no transactions entered into by Kane, other than those in the ordinary course of business, which are material with respect to Kane.

(f) Authorization of Transaction.

The entering into, execution and delivery of this Agreement, the Collateral Documents and all other agreements or other instruments contemplated hereby and thereby, and the consummation of the transactions herein or therein contemplated, has been duly authorized by all necessary corporate

action on behalf of Kane (including any necessary action of its directors and shareholders), and this Agreement, and each of the Collateral Documents to which it is a party, has been duly and validly executed and delivered by Kane and is a legal, valid and binding obligation of Kane, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally.

(g) Conflicting Instruments.

The execution and delivery by Kane of this Agreement together with any other documentation associated herewith (including the Collateral Documents to which it is a party), and the consummation by Kane of the transactions contemplated herein or therein, will not conflict with, or result in the violation of, or a default under, any Applicable Law, rule or regulation, any of the terms and provisions of the articles or by-laws of Kane or of any Contract to which Kane is a party or by which it is bound, or cause the rights of any party (including any right to the vesting of purchase rights with respect to any outstanding securities or securities which hereafter may be issued) to any such Contract to accelerate according to the terms of such Contract.

(h) Subsidiaries and Other Interests.

Except for STEM, Kane has no subsidiaries, is not and has not been a partner in a partnership, is not and has not participated in any joint venture, and does not own, and has not agreed or become bound to acquire any securities issued by, or acquire any equity or ownership interest in, any other business or Person. Except as disclosed in Schedule 3.2(h) of the Disclosure Letter, Kane is not subject to any obligation or requirement to provide funds to or to make any investment in any business or Person by way of loan, capital contribution or otherwise.

(i) Minute Books.

The minute books of Kane have been maintained in compliance with all Applicable Law in all material respects, and contain all articles, by-laws and resolutions of Kane and a complete and accurate record of all meetings and actions of the board of directors and shareholders of Kane since the date of incorporation of Kane, and reflect all transactions referred to in such proceedings accurately up until the Time of Closing. There are no filings or applications outstanding or proceedings underway in relation to the articles or by-laws of Kane.

(j) Compliance With Laws.

Kane is conducting its business in compliance in all material respects with all Applicable Law, rules and regulations of each jurisdiction in which its business is carried on, and is not in breach in any material respect of any such laws, rules or regulations, except where the failure to do so in any such case or taken together would not result in a Material Adverse Effect.

(k) Material Information.

No representation or warranty by Kane contained in this Agreement or any agreement or instrument contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not false or misleading. To the knowledge of Kane, there is no fact or circumstance relating

specifically to its business or condition of Kane that could reasonably be expected to result in a Material Adverse Effect.

ARTICLE 4
INVESTOR'S REPRESENTATIONS AND WARRANTIES

4.1 Investor's Representations and Warranties

The Investor represents and warrants to STEM as of the Time of Closing on the Closing Date as follows and acknowledges that STEM is relying on such representations and warranties in connection with the transactions contemplated herein:

(a) Authorization.

The Investor has all the necessary corporate or other power, authority and capacity to purchase or acquire the Subscribed Securities and to perform its other obligations under this Agreement and the Collateral Documents to which it is a party. The entering into of this Agreement and the Collateral Documents to which it is a party, and the consummation of the transactions herein and therein contemplated, has been or will be duly authorized by all necessary corporate or other action of the Investor on or before the Closing Date.

(b) Charter Documents and By-laws, etc.

The execution, delivery and performance of this Agreement and the Collateral Documents to which the Investor is a party, and the consummation of the transactions herein and therein contemplated, shall not conflict with or constitute a default under or result in the breach of: (i) any provision of the constating documents or any resolution of the directors or shareholders of the Investor (if applicable); or (ii) any statute, law or regulation of any jurisdiction as such statute, law or regulation relates to the Investor.

(c) Binding Obligation.

Upon due execution by STEM and the Investor, this Agreement and each of the Collateral Documents to which the Investor is a party will constitute a legally valid and binding obligation of the Investor enforceable in accordance with its respective terms except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally.

(d) Investment Representations.

- (i) The Investor has sufficient knowledge and experience in financial or business matters such that it is capable of evaluating the merits and risks of its investment in the Subscribed Securities. The Investor is aware that there are securities and tax laws applicable to the holding and disposition of Subscribed Securities and the Investor has obtained advice in respect of such laws from its own advisors.
- (ii) The Subscribed Securities issued to it are and will be acquired by the Investor for the Investor's own account for purposes of investment,

not as a nominee or agent, and not with a view to or in connection with the distribution or resale of all or any part thereof. The Investor does not have any: (A) present intention of selling, transferring, granting any participation in, or otherwise distributing the Subscribed Securities issued to it, or (B) Contract with any Person to sell, transfer, grant any participation in or otherwise distribute all or any part of the Subscribed Securities issued to it.

- (iii) The Investor understands that the Subscribed Securities are not and will not be registered under the 1933 Act or applicable U.S. state securities laws and that the issuance of the Subscribed Securities will not be qualified by a prospectus under the Securities Laws of any jurisdiction of Canada, by reason of specific exemptions therefrom, which exemptions depend upon, among other things, the Investor's representations set forth herein.
- (iv) The Investor is a resident of the jurisdiction specified in the recitals hereto.
- (v) The investor is an "accredited investor" as such term is defined in NI 45-106.
- (vi) The purchase or acquisition by the Investor of the Subscribed Securities issued to it: (A) does not give rise to any obligation to prepare or file a prospectus or similar document, or any other report with any governmental or other regulatory authority in its jurisdiction of residence with respect to such purchase; and (B) does not contravene any of the applicable securities legislation or other laws or regulatory policies of the jurisdiction in which the Investor is resident and:
 - A. the Investor is knowledgeable of, or has been independently advised as to, the applicable Securities Laws of the securities regulatory authorities (the "Authorities") having application in the jurisdiction of its residence or by which each is otherwise governed that would apply to this Agreement, if there are any; and
 - B. the Investor is purchasing or acquiring the Subscribed Securities issued to it pursuant to exemptions from any substantive or procedural requirements under the applicable Securities Laws and policies of the Authorities in the jurisdiction in which it is resident or, if such is not applicable, the Investor is permitted to purchase or acquire the Subscribed Securities issued to it under the applicable Securities Laws and policies of the Authorities in the jurisdiction in which it is resident without the need to rely on any exemption.

- (vii) The Investor acknowledges that there are statutory resale restrictions under Canadian securities legislation applicable to the resale of the Subscribed Securities. The Investor confirms that no representation has been made to it by or on behalf of STEM with respect to the Investor's ability to trade the Subscribed Securities.
- (viii) The Investor undertakes and agrees that the Investor will not resell the Subscribed Securities except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders and stock exchange rules.

ARTICLE 5 **INDEMNIFICATION**

5.1 Non-Merger and Exclusive Remedy

The representations, warranties, covenants and other obligations contained in this Agreement and in any agreement, certificate or other document delivered or given pursuant to this Agreement (including, without limitation, any Collateral Document) shall survive and shall not merge on the Closing and, notwithstanding the Closing or any investigation made by any party with respect thereto, shall continue in full force and effect until the dates specified in Section 5.4 or in the relevant agreement, certificate or other documents (as the case may be). All Claims by any party after Closing in respect of the representations and warranties (but not, for greater certainty, any of such covenants and other obligations (which are intended to be continuing in nature)) contained in this Agreement shall be subject to the conditions and limitations set forth in this Article 5 and the rights of indemnity in this Article 5 shall be the sole and exclusive remedy of each party in respect of such Claims.

5.2 General Indemnification by STEM and Kane

(a) Indemnification by STEM and Kane.

STEM and Kane shall, jointly and severally, except in respect of the representations and warranties contained in Section 3.2 or for any failure by Kane to observe or perform any covenant or obligation contained in this Agreement or any agreement certificate or other document delivered or given pursuant to this Agreement (including any Collateral Document) for which Kane shall solely, indemnify, defend and save harmless the Investor from and against any and all Losses suffered or incurred by the Investor, as a direct or indirect result of, or arising from:

- (i) subject to the limitations in Sections 5.4(a) and 5.5(a) any of the representations and warranties made or given by STEM or Kane in this Agreement or in any agreement, certificate or other document delivered or given pursuant to this Agreement (including, without limitation, any Collateral Document) having been untrue or inaccurate; or
- (ii) any failure by STEM or Kane to observe or perform any covenant or obligation contained in this Agreement or in any agreement,

certificate or other document delivered or given pursuant to this Agreement (including, without limitation, any Collateral Document).

In the event that the Investor brings an indemnity Claim against Kane and/or STEM in accordance with the provisions of this Section 5.2, subject to the limitations in Sections 5.4(a) and 5.5(a), Kane or, at the Investor's option, STEM shall be required to pay to the Investor forthwith, an amount equal to the sum required to compensate the Investor for the loss of value in their share of the equity of STEM as a result of STEM being required to make such payment. The Investor's percentage share of the equity of STEM shall be determined at the time of the indemnity Claim based on the number of Shares then issued and outstanding.

5.3 Indemnification by the Investor

Subject to the limitations in Sections 5.4(b) and 5.5(b) the Investor shall indemnify, defend and save harmless STEM and Kane from and against any and all Losses suffered or incurred by either of them, as a direct or indirect result of, or arising from:

- (a) any of the representations and warranties made or given by the Investor in this Agreement having been untrue or inaccurate; and/or
- (b) any failure by the Investor to observe or perform any covenant or obligation contained in this Agreement.

5.4 Time Limitations

- (a) STEM and Kane shall have no liability to the Investor for any Loss arising from any Claim relating to a breach of any representation or warranty contained in this Agreement or in any agreement, certificate or other document delivered or given pursuant to this Agreement unless the Investor gives written notice to STEM or Kane specifying in reasonable detail the factual basis of the Claim and a reasonable estimate of the Loss on or before that date which is two (2) years after the Closing.
- (b) The Investor shall not have any liability to STEM for any Loss arising from any Claim relating to a breach of any representation or warranty contained in Article 4 of this Agreement unless STEM and/or Kane give written notice to the Investor specifying in reasonable detail the factual basis of the Claim and a reasonable estimate of the Loss on or before that date which is two (2) years after the Closing.

5.5 Limitations on Amount

- (a) No Claim may be asserted by the Investor under Section 5.2 unless and until the aggregate of the Losses collectively, in respect of all Claims at any time asserted by the Investor pursuant to this Article 5 (whether in respect of Kane and/or STEM), exceeds \$50,000, in which event the amount of all such Loss including such \$50,000 amount may be asserted.
- (b) No Claim may be asserted by STEM and/or Kane under Section 5.3 unless and until the aggregate of the Losses in respect of all Claims at any time asserted by

STEM and/or Kane pursuant to this Article 5, exceeds \$50,000, in which event the amount of all such Loss including such \$50,000 amount may be asserted.

5.6 Notice of Third Party Claims

If an Indemnitee receives notice of the commencement or assertion of any Claim asserted against the Indemnitee that is paid or payable to, or claimed by, any Person who is not a party to this Agreement (a "Third Party Claim"), the Indemnitee shall give the Indemnitor reasonably prompt notice thereof, but in any event no later than 10 days after receipt of such notice of such Third Party Claim. Such notice to the Indemnitor shall describe the Third Party Claim in reasonable detail and shall indicate, if reasonably practicable, the estimated amount of the Loss that has been or may be sustained by the Indemnitee.

5.7 Defence of Third Party Claims

The Indemnitor shall have the right, by notice to the Indemnitee given not later than 10 days after receipt of the notice described in Section 5.6, to assume the control of the defence, compromise or settlement of the Third Party Claim, provided that such assumption shall, by its terms, be without cost to the Indemnitee and provided the Indemnitor acknowledges in writing its obligation to indemnify the Indemnitee in accordance with the terms contained Article 5 in respect of that Third Party Claim. Upon the assumption of control of any Third Party Claim by the Indemnitor as set out in this Section, the Indemnitor shall diligently proceed with the defence, compromise or settlement of the Claim at its sole expense, including if necessary, employment of counsel and experts reasonably satisfactory to the Indemnitee and the Indemnitor shall cooperate fully with such defence, but at the expense of the Indemnitor with respect to any out-of-pocket expenses incurred, to make available to the Indemnitor all pertinent information and witnesses under the Indemnitee's control and take such other steps as in the opinion of counsel for the Indemnitor are reasonably necessary to enable the Indemnitor to conduct such defence. The Indemnitee shall also have the right to participate in the negotiation, settlement or defence of any Third Party Claim at its own expense. The Indemnitor shall not settle any Third Party Claim without the prior written consent of the Indemnitee such consent not to be unreasonably withheld. If the Indemnitor does not assume control of a Third Party Claim as permitted in this Section 5.7, the Indemnitee shall be entitled to make such settlement of the Third Party Claim as in its sole discretion may appear advisable, and such settlement or any other final determination of the Claim shall be binding upon the Indemnitor.

5.8 Assistance for Third Party Claims

The Indemnitor and the Indemnitee will use all reasonable efforts to make available to the Person that is undertaking and controlling the defence of any Third Party Claim (the "Defending Party"),

- (a) those employees and other Persons whose assistance, testimony or presence is necessary to assist the Defending Party in evaluating and in defending any Third Party Claim; and

- (b) all documents, records and other materials in the possession of such party reasonably required by the Defending Party for its use in defending any Third Party Claim,

and shall otherwise cooperate with the Defending Party. The Indemnitor shall be responsible for all reasonable expenses associated with making such documents, records and materials available and for all reasonable expenses of any employees or other Persons made available by the Indemnitee to the Indemnitor hereunder, which expense shall not exceed the actual cost to the Indemnitee associated with such employees and other Persons.

5.9 Settlement of Third Party Claims

If an Indemnitor elects to assume the defence of any Third Party Claim as provided in Section 5.7, the Indemnitor shall not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defence of such Third Party Claim following the receipt by the Indemnitee of notice of such assumption. However, if in the opinion of the Indemnitee, acting reasonably, there is a conflict between the interests of the Indemnitor and the interests of the Indemnitee with respect to such Third Party Claim, or if the Indemnitor fails to take reasonable steps necessary to defend diligently such Third Party Claim within 30 days after receiving notice from the Indemnitee that the Indemnitee believes on reasonable grounds that the Indemnitor has failed to take such steps, the Indemnitee may, at its option, elect to assume the defence of and to negotiate, settle or compromise the Third Party Claim assisted by counsel of its own choosing and the Indemnitor shall also be liable for all reasonable costs and expenses paid or incurred in connection therewith. The Indemnitor shall not, without the prior written consent of the Indemnitee, which shall be unreasonably withheld, enter into any compromise or settlement of a Third Party Claim.

5.10 Failure to Give Timely Notice

A failure to give timely notice as provided in this Article 5 shall not affect the rights or obligations of any party except and only to the extent that, as a result of such failure, any party which was entitled to receive such notice was deprived of its right to recover any payment under its applicable insurance coverage or was otherwise directly and materially damaged as a result of such failure.

5.11 Reductions and Subrogation

If the amount of any Loss at any time subsequent to the making of any payment on account of any Loss required to be paid pursuant to this Article 5 (an "Indemnity Payment") in respect of that Loss is reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any Claim, recovery, settlement or payment by or against any other Person, the amount of such reduction (less any costs, expenses (including Taxes) or premiums incurred in connection therewith), shall promptly be repaid by the Indemnitee to the Indemnitor. Upon making a full Indemnity Payment, the Indemnitor shall, to the extent of such Indemnity Payment, be subrogated to all rights of the Indemnitee against any third party that is not an Affiliate of the Indemnitee in respect of the Loss to which the Indemnity Payment relates. Until the Indemnitee recovers full payment of its Loss, any and all Claims of the Indemnitor against any such third party on account of such Indemnity Payment shall be postponed and subordinated in right of payment to the Indemnitee's rights against such third party. Without limiting the generality or effect of any other provision hereof, the Indemnitee and Indemnitor shall duly execute

upon request all instruments reasonably necessary to evidence and perfect such postponement and subordination.

5.12 Tax Effect

If any Indemnity Payment received by an Indemnitee would constitute taxable income or be subject to Tax to such Indemnitee, the Indemnitor shall pay to the Indemnitee at the same time and on the same terms, as to interest and otherwise, as the Indemnity Payment such additional amount, as would place the Indemnitee in the same after-Tax position as it would have been if the Indemnity Payment had not been subject to Tax or constituted taxable income to the Indemnitee.

5.13 Additional Rules and Procedures

- (a) If any Third Party Claim is of a nature such that the Indemnitee is required by Applicable Law to make a payment to any Person (a "Third Party") with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnitee may make such payment and the Indemnitor shall, forthwith after demand by the Indemnitee, reimburse the Indemnitee for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnitor to the Indemnitee, the Indemnitee shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnitor.
- (b) The Indemnitee and the Indemnitor shall co-operate fully with each other with respect to Third Party Claims, shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available) and shall each designate a senior officer who shall keep himself or herself informed about and be prepared to discuss the Third Party Claim with his or her counterpart and with counsel at all reasonable times.

ARTICLE 6

TERMS AND CONDITIONS OF CLOSING

6.1 Terms and Conditions to Each Party's Obligations

The sale to the Investor of the Subscribed Securities, and the purchase by the Investor of the Subscribed Securities on the Closing Date are subject to the fulfillment at or prior to the Closing Date of each of the following conditions, any or all of which may be waived in whole or in part by the party or parties being benefited thereby (which waiver shall be in such party's sole discretion), to the extent permitted by Applicable Law:

- (a) TSXV Approval. The conditional approval of the TSXV (the "**TSXV Approval**") for the Closing of the transactions contemplated hereby shall have been received.
- (b) Exemption from Prospectus and Registration Requirements. The issuance of the Subscribed Securities to the Investor are being issued pursuant to the private issuer exemption under applicable Securities Laws and shall be exempt from the

prospectus and registration requirements of all applicable securities regulations and policies, including without limitation *The Securities Act* (Manitoba).

6.2 **Terms and Conditions to the Investor's Obligations**

The obligation of the Investor to purchase the Subscribed Securities is further subject to the satisfaction of the following conditions, any one or more of which may be waived in whole or in part by the Investor at or prior to the Closing Date:

- (a) STEM Composite Certificate. On the Closing Date, at or prior to the Time of Closing, STEM shall have delivered to the Investor a certificate, executed by a duly authorized officer of STEM, attaching thereto: (i) the Articles in effect at the Time of Closing on the Closing Date; (ii) the By-laws as in effect at the Time of Closing on the Closing Date; (iii) certificate of incumbency; and (iv) resolutions of the Board authorizing the transactions contemplated hereby.
- (b) Kane Composite Certificate. On the Closing Date, at or prior to the Time of Closing, Kane shall have delivered to the Investor a certificate, executed by a duly authorized officer of Kane, attaching thereto: (i) the articles of Kane in effect at the Time of Closing on the Closing Date; (ii) the by-laws of Kane as in effect at the Time of Closing on the Closing Date; (iii) certificate of incumbency; and (iv) resolutions of the board of directors of Kane authorizing the transactions contemplated hereby.
- (c) Consents. There shall have been obtained from all Persons such approvals or consents as are required to permit the execution and delivery of this Agreement and the Collateral Documents and the consummation of the transactions contemplated hereby and thereby.
- (d) Authorization of Transaction. The creation, offering, issue, sale and delivery of the Subscribed Securities to the Investor shall have been authorized by all necessary action of STEM, its shareholders and directors.
- (e) Board of Directors. On the Closing Date, the Board shall be comprised of the following individuals: Marc Edwards, Raymond Dupuis, Georges Morin, Martin Gore and Chris Brewster.
- (f) Share Certificates. On the Closing Date, at or prior to the Time of Closing, STEM shall deliver to the Investor a certificate representing the Subscribed Securities registered in the name of the Investor.
- (g) Shareholders Agreement. On the Closing Date, at or prior to the Time of Closing, STEM and Kane shall deliver a duly executed copy of the Shareholders Agreement, in the form attached hereto as Exhibit "A".
- (h) Option Agreement. On the Closing Date, at or prior to the Time of Closing, STEM and Kane shall deliver a duly executed copy of the Option Agreement, in the form attached hereto as Exhibit "B".

- (i) Closing Documents. All agreements, certificates and other documentation of STEM and Kane or counsel for STEM and Kane reasonably necessary to implement the transactions herein contemplated shall be delivered to the Investor at or prior to the Time of Closing.

6.3 Terms and Conditions to STEM and Kane's Obligations

The obligation of STEM to sell the Subscribed Securities to the Investor is further subject to the satisfaction of the following conditions, any one or more of which may be waived in whole or in part by STEM and Kane at or prior to the Closing Date:

- (a) Composite Certificate. On the Closing Date, at or prior to the Time of Closing, the Investor shall have delivered to Kane and STEM a certificate, executed by a duly authorized officer of the Investor, attaching thereto: (i) the by-laws of the Investor as in effect at the Time of Closing on the Closing Date; (ii) certificate of incumbency; and (iii) minutes of a meeting of a committee of the board of directors of Animalcare Group plc authorizing the transactions contemplated hereby.
- (b) Purchase Price. On the Closing Date, at or prior to the Time of Closing, the Investor shall deliver to STEM the purchase price, in accordance with Section 2.1(b).
- (c) Shareholders Agreement. On the Closing Date, at or prior to the Time of Closing, the Investor shall deliver a duly executed copy of the Shareholders Agreement, in the form attached hereto as Exhibit "A".
- (d) Option Agreement. On the Closing Date, at or prior to the Time of Closing, the Investor shall deliver a duly executed copy of the Option Agreement, in the form attached hereto as Exhibit "B".
- (e) Closing Documents. All agreements, certificates and other documentation of the Investor or counsel for the Investor reasonably necessary to implement the transactions herein contemplated shall be delivered to the Investor at or prior to the Time of Closing.

6.4 Non-Fulfilment of Terms and Conditions

In case any term, condition, obligation or covenant to be performed or fulfilled prior to the Closing Date shall not have been performed or fulfilled as contemplated by this Agreement (or waived as contemplated by Section 7.10 hereof), the party having the benefit of such term, condition, obligation or covenant may, at its sole option, waive compliance with any such term, condition, obligation or covenant in whole or in part if such party sees fit to do so, without prejudice to any of its rights in the event of non-performance of any other term, condition, obligation or covenant in whole or in part, such waiver to be effective only if made in writing.

ARTICLE 7
GENERAL

7.1 **Further Assurances**

STEM, Kane and the Investor shall execute and deliver all such further documents and instruments and do all acts and things as may, either before or after the Closing Date, be reasonably required to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

7.2 **Law Firms**

The Investor acknowledges that: (i) the Investor has been represented by Osler, Hoskin & Harcourt LLP and; (ii) STEM and Kane have been represented by MLT Aikins LLP.

7.3 **Time of the Essence**

Time shall be of the essence of this Agreement.

7.4 **Reimbursement of Transaction Fees**

Each party to this Agreement shall pay their own out-of-pocket expenses, including in respect of due diligence, legal fees and other related expenses, incurred in connection with the transactions contemplated by this Agreement.

7.5 **Public Announcements**

No press release, public statement or announcement or other public disclosure regarding this Agreement or the transactions contemplated by this Agreement may be made without the prior written consent and joint approval of the Investor, Kane and STEM, except if required by Applicable Laws, a Governmental Authority or an applicable stock exchange rule. If disclosure is required by Applicable Laws, a Governmental Authority or applicable stock exchange rule, the party that is required to make the disclosure shall, without unreasonable delay, notify the other parties of the requirement before any disclosure is made and make reasonable efforts to obtain the approval of the other parties as to the form, nature and extent of the disclosure.

7.6 **Assignment**

Neither this Agreement nor any of the rights, benefits or obligations under this Agreement are assignable or transferable by any party hereto without the prior written consent of the other parties.

7.7 **Notices**

Any notice, consent, request, demand or other communication required or permitted to be given or delivered hereunder (in this Section referred to as a “**Notice**”) shall, unless otherwise permitted, be in writing and shall be delivered in person, transmitted by electronic mail, or sent by registered or certified mail, return receipt requested, postage prepaid, to the parties at their respective addresses that follow:

(a) in the case of a Notice to the Investor at:

Ecuphar NV
c/o Animalcare Group plc
10 Great North Way, York Business Park
York, England
YO26 6RB

Attention: Chris Brewster, Chief Financial Officer
E-mail: cbrewster@animalcaregroup.com

with a copy (which shall not constitute Notice) to:

Osler, Hoskin & Harcourt LLP
1 First Canadian Place, Suite 6200
Toronto, Ontario
M5X 1B8

Attention: John M. Valley
E-mail: JValley@osler.com

(b) in the case of a Notice to Kane at:

Kane Biotech Inc.
162-196 Innovation Drive
Winnipeg, Manitoba
R3T 2N2 Canada

Attention: Marc Edwards
Email: medwards@kanebiotech.com

with a copy (which shall not constitute Notice) to:

MLT Aikins LLP
30th Floor, 360 Main Street
Winnipeg, Manitoba
R3C 4G1

Attention: David C. Filmon
E-mail: DFilmon@mltaikins.com

(c) in the case of a Notice to STEM at:

STEM Animal Health Inc.
162-196 Innovation Drive
Winnipeg, Manitoba
R3T 2N2 Canada

Attention: Marc Edwards
Email: medwards@kanebiotech.com

with a copy (which shall not constitute Notice) to:

Ecuphar NV
c/o Animalcare Group plc
10 Great North Way, York Business Park
York, England
YO26 6RB
Attention: Chris Brewster, Chief Financial Officer
E-mail: cbrewster@animalcaregroup.com

or at such other address as any party may from time to time designate pursuant to this section. Any notice given shall be deemed to have been received on the date on which it is delivered, or transmitted by electronic mail, or if mailed, on the fifth Business Day next following the mailing thereof.

7.8 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba, without regard to the province's conflict of law provisions, and each of the parties hereto irrevocably agrees to submit to the exclusive jurisdiction of the courts of such province for and in connection with any proceedings relating to this Agreement.

7.9 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

7.10 Amendments and Waivers

Subject to the terms of this Agreement, this Agreement may be amended or modified, and any obligation or condition set forth herein may be waived, by an instrument in writing duly executed by each of (i) STEM; (ii) Kane; and (iii) the Investor.

7.11 Entire Agreement

This Agreement together with the Collateral Documents constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto, including without limitation the term sheet among Kane and the Investor (as amended). There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the parties other than as expressly set forth or contemplated in this Agreement and the Collateral Documents.

7.12 Delays or Omissions

No delay or omission to exercise any right, power or remedy accruing to the Investor, upon any breach or default by STEM and/or Kane under this Agreement, or STEM and/or Kane upon any

breach by the Investor, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of such breach or default, or any acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. It is further agreed that any waiver, permit, consent or approval of any kind or character on the part of the Investor or STEM and/or Kane of any breach or default under this Agreement, or any waiver on the part of the Investor or STEM and/or Kane of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing.

7.13 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

7.14 Independent Legal Advice

Each party acknowledges that it has read and understands the terms and conditions of this Agreement and acknowledges that it has had the opportunity to seek, and was not prevented or discouraged by any other party to this Agreement from seeking, any independent legal advice which it considered necessary before the execution and delivery of this Agreement and that, if such party did not avail itself of that opportunity before signing this Agreement, it did so voluntarily without undue pressure, and agrees that its failure to obtain independent legal advice will not be used by it as a defence to the enforcement of its obligations under this Agreement.

7.15 Counterparts and Execution

This Agreement may be executed by the parties in separate counterparts, each of which, when so executed and delivered, shall be deemed to constitute an original, but all of which together shall constitute one and the same agreement. The delivery of an executed signature page to this Agreement by electronic transmission shall constitute and be deemed to be delivery of the original signatures of the parties.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF the parties have executed this Agreement on and as of the day first above written.

STEM ANIMAL HEALTH INC.

By: (signed) "Marc Edwards"
Name: Marc Edwards
Title: Chief Executive Officer

KANE BIOTECH INC.

By: (signed) "Marc Edwards"
Name: Marc Edwards
Title: Chief Executive Officer

ECUPHAR NV

By: (signed) "Jennifer Winter"
Name: Jennifer Winter
Title: Director