

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE PROPOSAL OF
PV LABS INC.**

MOTION RECORD

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Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE PROPOSAL OF
PV LABS INC.**

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TAB 1

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE PROPOSAL OF
PV LABS INC.**

NOTICE OF MOTION

PV Labs Inc. (“**PV Labs**” or the “**Company**”) will make a motion to a Judge of the Commercial List on Thursday, February 2, 2017, at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. an Order, substantially in the form attached hereto as **Schedule “A”**, among other things:
 - (a) if necessary, abridging the time for service of the Notice of Motion and the Motion Record and validating service thereof;
 - (b) extending the time for filing a proposal pursuant to s. 50.4(9) of the *Bankruptcy and Insolvency Act*, R.S.C. 1983 c. B-3 (the “**BIA**”) to April 10, 2017;
 - (c) approving the sale and investment solicitation process (“**SISP**”) described in the report (the “**BDO Report**”) to be filed by BDO Canada Limited (“**BDO**”), in its

capacity as trustee in the proposal of PV Labs (in such capacity, the “**Proposal Trustee**”);

- (d) approving the interim financing of PV Labs by 902878 Ontario Limited (in such capacity, the “**DIP Lender**”) substantially in accordance with the terms of the Term Sheet dated January 20, 2017 (the “**DIP Term Sheet**”);
 - (e) granting the following priority charges over the assets of PV Labs, which charges shall rank in the priority set out in the proposed order:
 - (i) a priority charge in favour of the Proposal Trustee, counsel to the Proposal Trustee and counsel for PV Labs (the “**Administration Charge**”);
 - (ii) a priority charge in favour of the DIP Lender to secure all amounts owing under the DIP Term Sheet (the “**DIP Lender’s Charge**”); and
 - (iii) a priority charge in favour of the directors and officers of PV Labs (the “**Directors’ Charge**”); and
2. such further and other relief as this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

Background

1. PV Labs designs and develops turnkey aerial imaging systems for the (a) Cinema, (b) Intelligence, Surveillance, Reconnaissance, and (c) Aerial Survey markets. The

Company's expertise is in the development of solutions that require high performance gimbal stabilization, optics and data management that leverage its common software and hardware components.

2. PV Labs is in default with certain of its secured lenders.
3. By letter dated January 18, 2017 (received January 19, 2017), PV Labs Capital Corporation (an arm's length lender) demanded repayment of its loan in full, claiming \$4,111,396.45 plus interest, fees and costs, and included a Notice of Intention to Enforce Security under s. 244 of the BIA.
4. Management of the Company, with the assistances of its advisors, has considered the most effective and efficient way to implement a sale transaction or other restructuring alternative. Management considered its financial difficulties and its cash position and has consulted extensively with its lenders. Ultimately, it was determined that the best alternative in order to preserve the business as a going concern would be to pursue the implementation of a sale transaction or other restructuring alternative through a proposal proceeding under the BIA.
5. On January 27, 2017, PV Labs filed a Notice of Intention to File a Proposal (the "NOI") pursuant to section 50.4 of the BIA. BDO was appointed as Proposal Trustee.

The SISP

6. The Proposal Trustee has developed the SISP, which would be conducted independently by the Proposal Trustee.

7. Court approval of the SISP at the outset of the process is being sought in order to provide certainty as to the commercial reasonableness of the SISP, and avoid the possibility that time and effort will be incurred on a process that might later, when presenting a resulting transaction for court authorization, be determined to have been inadequate.

The DIP Loan

8. PV Labs is presently facing a severe liquidity crisis and, absent further funding, it is concerned that it could run out of liquidity needed to fund its operations by the end of the week of January 30, 2017.
9. The DIP Lender has agreed to provide interim financing (the “**DIP Loan**”) to PV Labs pursuant to the terms of the DIP Term Sheet.
10. Without the DIP Loan, PV Labs will be unable to finance its operations or its efforts to restructure its business.

The Charges

11. The DIP Loan is subject to court approval of the DIP Term Sheet and the granting of a court-ordered charge over all of the assets of PV Labs.
12. PV Labs will require the participation of the Proposal Trustee, the Proposal Trustee’s legal counsel and its own legal counsel to assist with these NOI proceedings. PV Labs is seeking the Administration Charge to secure payment of their reasonable fees and expenses.

13. The requested court-ordered charges are fair and reasonable in the circumstances and are necessary in order to complete the Company's objectives in this proceeding.

Extension of Time

14. An extension of time under s. 50.4(9) is required in order to permit the SISP to be carried out and is warranted at this time in order to avoid an unnecessary court attendance.

Other Grounds

15. Sections 50.4(9), 50.6, 64.2 and 64.1 of the BIA and the inherent and equitable jurisdiction of this Court.
16. Such further and other grounds as counsel may advise and this Honourable Court permits.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. Affidavit of Mark Chamberlain;
2. The BDO Report; and
3. Such further and other material as counsel may advise and this Honourable Court permits.

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Dated: January 27, 2017

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Lawyers for PV Labs Inc.

TO: THE SERVICE LIST

TAB A

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE JUSTICE)	DAY, THE
)	
)	DAY OF FEBRUARY, 2017

**IN THE MATTER OF THE PROPOSAL
OF PV LABS INC.**

ORDER

THIS MOTION, made by PV Labs Inc. (“**PV Labs**”) for various relief pursuant to the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, c. B-3, as amended (“**BIA**”), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, the Affidavit of Mark Chamberlain sworn January 27, 2017 (the “**Chamberlain Affidavit**”), the Report of BDO Canada Limited in its capacity as the Proposal Trustee (“**Proposal Trustee**”) dated January 27, 2017 (the “**BDO Report**”), and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel to PV Labs, counsel to the Proposal Trustee, counsel to the DIP Lender (as hereinafter defined), and counsel to ●, no one else appearing.

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record of PV Labs is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

STAY EXTENSION

2. THIS COURT ORDERS that the time for PV Labs to file a proposal, and the stay of proceedings herein, is hereby extended in accordance with subsection 50.4(9) of the BIA to and including April 10, 2017,

APPROVAL OF SISP

3. THIS COURT ORDERS that the sale and investment solicitation process (the “**SISP**”) described in the BDO Report is hereby approved.

4. THIS COURT ORDERS that the Proposal Trustee and PV Labs be and are hereby authorized and empowered to take such steps as are necessary or desirable to carry out and perform their obligations under the SISP, provided that any definitive agreement to be executed by PV Labs in respect of the sale of all or part of the Property (as defined below) shall require further approval of this Court.

ADMINISTRATION CHARGE

5. THIS COURT ORDERS that the Proposal Trustee, counsel to the Proposal Trustee and counsel to PV Labs shall be paid their reasonable fees and disbursements (including any pre-filing fees and disbursements), in each case at their standard rates and charges, by PV Labs as part of the costs of these proceedings. PV Labs is hereby authorized and directed to pay the accounts of the Proposal Trustee, counsel to the Proposal Trustee and counsel to PV Labs on at least a monthly basis.

6. THIS COURT ORDERS that the Proposal Trustee, counsel to the Proposal Trustee and counsel to PV Labs shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on all assets, rights, undertakings, and properties of PV Labs, of every nature and kind whatsoever, and wherever situated including all proceeds thereof (the “**Property**”), which Administration Charge shall not exceed an aggregate amount of \$250,000, as security for their professional fees and disbursements incurred at their standard rates and charges, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 16 and 18 hereof.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

7. THIS COURT ORDERS that PV Labs shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of PV Labs after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

8. THIS COURT ORDERS that the directors and officers of PV Labs shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of \$●, as security for the indemnity provided in paragraph 7 of this Order. The Directors' Charge shall have the priority set out in paragraphs 16 and 18 hereof.

9. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) PV Labs' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 7 of this Order.

DIP FINANCING

10. THIS COURT ORDERS that the execution by PV Labs of the DIP Term Sheet (as hereinafter defined) is hereby approved, *nunc pro tunc*, and PV Labs is hereby authorized and empowered to perform its obligations under the DIP Term Sheet and to obtain and borrow amounts under DIP Term Sheet entered into among PV Labs, as borrower, and 902878 Ontario Limited, as lender (the "**DIP Lender**"), provided that borrowings under such credit facility shall not exceed the principal amount of \$1.5 million unless permitted by further Order of this Court.

11. THIS COURT ORDERS that such credit facility shall be on the terms and subject to the conditions set forth in the DIP term sheet between PV Labs and the DIP Lender dated as of January 20, 2017, and appended to the BDO Report (the "**DIP Term Sheet**"), together with such

modifications as may be agreed upon by PV Labs and the DIP Lender and consented to by the Proposal Trustee.

12. THIS COURT ORDERS that PV Labs is hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees or other definitive documents (such documents, together with the DIP Term Sheet, collectively, the “**Definitive Documents**”), as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, together with such modifications as may be agreed upon by PV Labs and the DIP Lender and consented to by the Proposal Trustee, and PV Labs is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities, and obligations to the DIP Lender under and pursuant to the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

13. THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is granted a charge (the “**DIP Lender’s Charge**”) on the Property, which DIP Lender’s Charge shall not secure an obligation that exists before this Order is made. The DIP Lender’s Charge shall have the priority set out in paragraphs 16 and 18 hereof.

14. THIS COURT ORDERS that, notwithstanding any other provisions of the BIA:

- a. the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record, or perfect the DIP Lender’s Charge or any of the Definitive Documents;
- b. upon the occurrence of an event of default under the Definitive Documents, the DIP Lender may (i) cease making advances to PV Labs, and (ii) with approval of the Court upon at least three (3) business days’ notice to PV Labs and the Proposal Trustee, exercise any and all of its rights and remedies against PV Labs or the Property under or pursuant to the Definitive Documents and the DIP Lender’s Charge, including without limitation, set off and/or consolidate any amounts owing by the DIP Lender to PV Labs against the obligations of PV Labs to the DIP Lender under the Definitive Documents or the DIP Lender’s Charge, to

make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim manager, or for a bankruptcy order against PV Labs and for the appointment of a trustee in bankruptcy of PV Labs; and

- c. the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of PV Labs or the Property.

15. THIS COURT ORDERS AND DECLARES that all claims of the DIP Lender pursuant to the Definitive Documents are not claims that may be compromised pursuant to any Proposal under the BIA (“**Proposal**”) filed by PV Labs or any plan of arrangement or compromise (“**Plan**”) filed by PV Labs under the *Companies’ Creditors Arrangement Act*, R.S.C., 1985, c. C-36, as amended (the “**CCAA**”) without consent of the DIP Lender and, the DIP Lender shall be treated as unaffected in any Proposal or Plan or other restructuring with respect to any obligations outstanding to the DIP Lender under or in respect of the Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

16. THIS COURT ORDERS that the priorities of the Administration Charge, the DIP Lender’s Charge and the Director’s Charge, as among them, shall be as follows:

First - Administration Charge (to the maximum amount of \$250,000);

Second - DIP Lender’s Charge; and

Third – Directors’ Charge (to the maximum amount of \$●)

17. THIS COURT ORDERS that the filing, registration or perfection of the Administration Charge, or the DIP Lender’s Charge (collectively, the “**Charges**”) shall not be required, and that the Directors’ Charge shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

18. THIS COURT ORDERS that each of the Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, “**Encumbrances**”), in favour of any Person, notwithstanding the order of perfection or attachment.

19. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, PV Labs shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless PV Labs also obtains the prior written consent of the Proposal Trustee, the DIP Lender and all other beneficiaries of the Charges, or further Order of this Court.

20. THIS COURT ORDERS that the Administration Charge, the Directors’ Charge, the Definitive Documents and the DIP Lender’s Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the “**Chargees**”) thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any motion(s) or application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such motions or applications; (c) the filing of any assignments for the general benefit of creditors made or deemed to have been made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, leases, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds PV Labs or the DIP Lender, and notwithstanding any provision to the contrary in any Agreement:

- a. neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Definitive Documents shall create or be deemed to constitute a breach by PV Labs or the DIP Lender of any Agreement to which any one of them is a party;

- b. none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from PV Labs entering into the Definitive Documents, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and
- c. the payments made by PV Labs pursuant to this Order, the Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

SERVICE AND NOTICE

21. THIS COURT ORDERS that the E-Service Protocol of the Commercial List (the “**Protocol**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which may be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/>) shall be valid and effective service. Subject to Rule 17.05 of the *Rules of Civil Procedure*, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective upon transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: ●.

22. THIS COURT ORDERS that if the service or distribution of documents in accordance with the Protocol is not practicable, the Proposal Trustee, counsel to the Proposal Trustee and counsel to PV Labs are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile or electronic transmission to PV Labs’ creditors or other interested parties at their respective addresses as last shown on the records of PV Labs and that any such service or notice by courier, personal delivery, facsimile or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

23. THIS COURT ORDERS that PV Labs or the Proposal Trustee may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

24. THIS COURT ORDERS that each of PV Labs and the Proposal Trustee be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order, and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

25. THIS COURT ORDERS that any interested party (including PV Labs and the Proposal Trustee) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

26. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Daylight Time on the date of this Order, and, for greater certainty, the DIP Lender shall be entitled to rely on this Order as issued for all advances made under the DIP Term Sheet and the Definitive Documents up to and including the date this Order may be varied or amended by this Court.

TAB 2

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE PROPOSAL OF
PV LABS INC.**

AFFIDAVIT OF MARK CHAMBERLAIN

I, Mark Chamberlain, of the City of Hamilton, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the President, CEO and largest shareholder of PV Labs Inc. (referred to herein as “**PV Labs**” or the “**Company**”). As such, I have personal knowledge of the matters to which I depose in this affidavit, save and except for such facts or matters which are stated to be based on information and belief, and where so stated, I believe same to be true.

2. This affidavit is sworn in support of a motion brought by the Company seeking an order (among other things):
 - (a) extending the time for filing a proposal pursuant to s. 50.4(9) of the *Bankruptcy and Insolvency Act*, R.S.C. 1983 c. B-3 (“**BIA**”) to April 1, 2017;

 - (b) approving an interim financing facility in the form of the Term Sheet signed by 902878 Ontario Limited;

- (c) approving court-ordered charges in favour of (i) the DIP Lender (defined below), (ii) the professionals whose work will be essential to the process described below, and (iii) the directors and officers of the Company; and
- (d) approving a sale and investor solicitation process as recommended by BDO Canada Limited (“**BDO**”) in its capacity as proposal trustee (the “**Proposal Trustee**”).

A. BUSINESS OF PV LABS

i. Background

3. PV Labs is an Ontario corporation with its head office in Burlington.
4. I founded PV Labs in 2004. Since then, PV Labs has designed and developed turnkey aerial imaging systems for the (a) Cinema, (b) Intelligence, Surveillance, Reconnaissance, and (c) Aerial Survey markets. The Company’s expertise is in the development of solutions that require high performance gimbal stabilization, optics and data management that leverage our common software and hardware components.
5. After 4 years of investment, PV Labs has developed the next generation of stabilization technology. This technology represents the fifth generation of stabilization technology and is the first platform stabilization technology to utilize a six degree of freedom “Flex-Pivot-Isolator” to replace the traditional mechanical constraint system in a gimbal. The new technology includes both software and hardware that enable a structure to provide a simple, direct support for the imager.

6. PV Labs is the newest entrant in the markets utilizing its 'GEN V' technology based products where major competitors include L-3 Communications, Raytheon and FSI. The competitive advantage of the new GEN V technology based products is its significant improvements in size, weight and performance as compared to its competitors.

ii. Employees

7. The Company currently has approximately 31 employees, all of whom are non-unionized. Of these employees, there are approximately 9 working on the manufacturing side, 19 engineers and 2 working in sales.

8. The Company does not maintain or contribute to a pension plan for its employees.

iii. Facilities

9. PV Labs operates out of leased premises in Burlington which total approximately 7,850 square feet. The current lease term for these premises expires in February 2019.

iv. Subsidiaries

10. The Company has interests in the following companies:

- (a) 100% ownership in Pictorvision Holdings Inc., a Delaware company whose sole asset is all of the shares of Pictorvision Inc. ("**Pictorvision**"), another Delaware company. Pictorvision leases out imaging systems under an arrangement with a California-based supplier of telescopic cranes; and

- (b) a minor interest (less than 5%) in GeoDigital International Inc. (“**GDI**”), which mainly provides aerial survey solutions for the power utility market.

B. ASSETS AND LIABILITIES

i. Financial Statements

11. The Company’s financial statements are typically prepared on a consolidated basis with a September 30 year-end. The most current unaudited consolidated financial statements for the Company are for the fiscal year ending September 30, 2016, a true copy of which is attached hereto as **Exhibit A**.

12. Attached hereto as **Exhibit B** is a true copy of interim financial statements for the period ending December 31, 2016.

ii. Assets

13. As of December 31, 2016, the Company’s principal assets consisted of the following:

Asset	Book Value
Unrelated party accounts receivable	\$311,669
Inventory	\$1,121,964
Work in Progress	563,810
ITC Taxes Receivable	\$1,265,000
Fixed Assets	\$131,213

iii. Secured Creditors

a. RBC

14. PV Labs entered into a credit agreement with Royal Bank of Canada (“**RBC**”) pursuant to a Facilities Letter dated March 8, 2012 as amended September 5, 2012 (the “**RBC Credit Agreement**”). Under the RBC Credit Agreement, the Company has a revolving line of credit in the maximum amount of \$600,000 which currently bears interest at the rate of 5.6% per annum.

15. RBC holds a general security interest against all of PV Labs’ assets which has been registered under the *Personal Property Security Act* (Ontario) (the “**PPSA**”).

16. As of January 17, 2017, the Company’s indebtedness to RBC under the RBC Credit Agreement totaled \$525,000.

b. BDC

17. Pursuant to a Letter of Offer dated February 24, 2011, Business Development Bank of Canada (“**BDC**”) granted a loan to PV Labs in the amount of \$2.5 million. The parties signed a Loan Agreement dated April 25, 2011 (the “**BDC Loan Agreement**”). The terms of the loan have been amended from time to time by way of letters signed by BDC and PV Labs.

18. The Company’s obligations under the BDC Loan Agreement are secured pursuant to, among other things, a general security agreement in favour of BDC. BDC has registered its security interest in accordance with the PPSA.

19. The Company is in default under its obligations owed to BDC, which is in a position to demand repayment in full of all amounts owed under the BDC Loan Agreement.

20. As of January 22, 2017, the Company's indebtedness to BDC under the BDC Loan Agreement will total approximately \$2,130,960 for principal and \$33,116 in accrued interest.

c. PVLCC

21. In January 2013, the Company accepted an offer of financing from Dundurn Capital Partners Inc. ("**Dundurn**") which called for, among other things, a \$2 million convertible loan, \$750,000 of SRED financing and the sale of 5/6ths of its subsidiary, Pictorvision, to Dundurn for \$2.5 million, which funds would be used by PVL to repay the BDC debt.

22. Dundurn was an entity controlled by an existing shareholder (Rob Manherz) who was also a director of PVL. Dundurn was to be replaced by a new vehicle - PV Labs Capital Corporation ("**PVLCC**") - once the participants were finalized.

23. A Loan Agreement dated January 30, 2013 was signed by PVL and PVLCC (and related parties) which called for, among other things, repayment of the loan by PVLCC on the earliest of January 20, 2014 and the occurrence of an event of default.

24. PVLCC did not subsequently complete the transaction to acquire the Company's interest in Pictorvision, and accordingly the Company did not make the corresponding payment in reduction of the BDC debt.

25. The term of the loan by PVLCC expired in 2014, at which time all amounts properly owed to PVLCC became repayable, subject to the terms of the agreements between the parties. Since that time, PVL and PVLCC have communicated periodically in an attempt to resolve their various issues, including but not limited to repayment of the amounts owed to PVLCC, but to date various issues between the parties remain unresolved, and the Company does not have the means to repay PVLCC.

26. PVLCC holds a general security interest against all of PV Labs' assets which has been registered under the PPSA.

27. As of December 31, 2016, the Company's indebtedness to PVLCC (not including a management fee claimed by PVLCC in the amount of approximately \$976,000) totaled approximately \$1,952,000 for principal and accrued interest of \$628,000 (based on a 10% interest rate).

28. By letter dated January 18, 2017 (received January 19, 2017), a true copy of which is attached hereto as **Exhibit C**, PVLCC demanded repayment of its loan in full, claiming \$4,111,396.45 plus interest, fees and costs, and included a Notice of Intention to Enforce Security under s. 244 of the BIA.

d. Other Secured Creditors

29. I am informed by Michael Kril-Mascarin, an associate lawyer with Chaitons LLP ("**Chaitons**"), counsel to PV Labs, that Chaitons has conducted searches under the Ontario Personal Property Security Registration System. Those searches have revealed registrations in favour of the following parties (I have omitted RBC, BDC, and PVLCC since their registrations are summarized above), all of which relate to equipment leases:

- Xerox Canada Ltd.
- National Leasing Group Inc.
- Dell Financial Services Canada Limited

30. Attached hereto as **Exhibit D** is a summary prepared by Chaitons of the results of those searches including a brief description of the collateral shown on the registrations.

e. Priorities

31. By Amended and Restated Subordination and Priorities Agreement signed in February 2013 (the “**Inter-Creditor Agreement**”), a true copy of which is attached hereto as **Exhibit E**, RBC, BDC and PVLCC set forth their respective rights and remedies in respect of the security granted by PV Labs to each of them.

32. The Inter-Creditor Agreement establishes the following general priorities among these parties as more specifically detailed therein:

- (a) the BDC Security and the RBC Security were postponed and subordinated to the PVLCC Security with respect to SRED tax credits for the Company’s 2012 tax year¹ and the Company’s shares in GDI;
- (b) other than with respect to SRED tax credits for the Company’s 2012 tax year and the Company’s shares in GDI, the PVLCC Security was fully subordinated to the BDC Security and the RBC Security; and

- (c) the BDC Security was fully subordinated to the RBC Security, except that:
- i. the BDC Security ranks in priority to the RBC Security with respect to a life insurance policy on my life; and
 - ii. the RBC Security and BDC Security rank *pari passu* with respect to the Company's intellectual property.

f. Unsecured Creditors

33. As of December 31, 2016, the Company's principal unsecured liabilities, not including the amounts owed to RBC, BDC and PVLCC, consisted of the following:

Liabilities	Amount
Accounts Payable	\$1,861,270
Customer Advances	\$1,294,379

C. FINANCIAL POSITION OF PV LABS

i. Cash Flow

34. The Company does not currently have any cash and is relying on its operating line with RBC to finance operations.

1 Those funds were received by PV Labs and used to pay off the PVLCC SRED loan facility.

35. The Company has worked with the Proposal Trustee to prepare a current cash flow statement (the “**Cash Flow**”) for the Company, which I understand is appended to the report of the Proposal Trustee being filed with the Court.

36. Based on the assumptions in the Cash Flow and the current circumstances facing the Company, the Company is concerned that it could run out of liquidity needed to fund its operations by the end of the week of January 30, 2017.

ii. Events Leading to the Company’s Current Financial Circumstances

37. Over the past 4 years, PV Labs has invested approximately \$10 million in the development of a new aerial camera stabilization technology for the Intelligence, Reconnaissance and Security markets and the commercial Cinema market.

38. The initial commercial product available for sale based on the new technology was finished approximately one year late due to technical design problems and supplier delays. Based on the original completion date, and the strength from orders for the first five units, the company began purchasing the necessary inventory to meet customer delivery dates at a cost of approximately \$400,000 per system.

39. The delayed delivery of the first units has resulted in a significant delay in revenue at the same time that inventory has increased significantly. An ongoing dispute regarding the terms of the PVLCC loan has prevented the company from obtaining additional financing to fund the cash shortfall. The combined impact has resulted in a significant cash shortage and our inability to meet our immediate financial and operating obligations.

NOI PROCEEDING

40. Management of the Company, with the assistances of its advisors, has considered the most effective and efficient way to implement a sale transaction or other restructuring alternative. Management considered its financial difficulties and its cash position and has consulted extensively with its lenders. Ultimately, it was determined that the best alternative in order to preserve the business as a going concern would be to pursue the implementation of a sale transaction or other restructuring alternative through a proposal proceeding under the BIA.

D. RELIEF SOUGHT

i. Sale and Investor Solicitation Process

41. The Proposal Trustee has developed a proposed sale and investor solicitation process (the “**SISP**”) which would be conducted independently by the Proposal Trustee. I understand that a summary of the SISP, including proposed terms and timelines, will be included in a report to be filed with the Court by the Proposal Trustee (the “**Trustee’s Report**”).

42. Court approval of the SISP at the outset of the process is being sought in order to provide certainty as to the commercial reasonableness of the SISP, and avoid the possibility that time and effort will be incurred on a process that might later, when presenting a resulting transaction for court authorization, be determined to have been inadequate.

ii. Interim Financing

43. As explained above, the Company has insufficient liquidity to maintain its operations through the proposal proceedings.

44. PV Labs received an offer for interim financing from 902878 Ontario Inc. (“**902**”) which it evaluated with the assistance of its counsel and the Proposal Trustee, considering, among other things, the costs and fees associated with the proposal, the priority ranking of charges securing the proposed interim financing and the Company’s liquidity requirements during the proposal proceedings. 902’s principal is John Heersink, and is known to the Company as it had previously provided financing to the Company of up to \$1 million secured by the Company’s rights to certain amounts payable to it under the federal Scientific Research and Experimental Development Tax Incentive Program (“**SRED**”).

45. After evaluating the financing proposal from 902 with a view to the best interests of PV Labs and its stakeholders, PV Labs negotiated with 902’s principal, John Heersink, to finalize the terms of the proposed financing. I understand that a copy of the finalized term sheet (the “**DIP Term Sheet**”) setting out the terms of the interim financing facility (the “**DIP Facility**”) will be attached to the Trustee’s Report.

46. The DIP Facility is provided on terms that are fair and reasonable and is the product of an arms’ length negotiation and compromise.

47. It is contemplated that all obligations of the Company under the DIP Term Sheet are to be secured by a court-ordered charge (the “**DIP Lender’s Charge**”) over all present and after-acquired property, assets and undertakings of the Company, ranking in priority to all other obligations other than

the Administration Charge (defined below), statutory super priority deemed trusts and liens for unpaid source deductions and such other permitted priority encumbrances as may be agreed to in writing by 902.

48. For the reasons more fully detailed in the Proposal Trustee's Report, I understand that the Proposal Trustee supports approval of the DIP Term Sheet.

iii. Administration Charge

49. It is contemplated that the Proposal Trustee, counsel to the Proposal Trustee and counsel to the Company would be granted a first priority court-ordered charge on the assets, property and undertaking of the Company in priority to all claims (the "**Administration Charge**") in respect of their fees and disbursements, incurred at standard rates and charges.

50. I believe that the Administration Charge is fair and reasonable in the circumstances and is necessary in order to complete the Proposal Proceedings.

iv. D&O Charge

51. The following expenses giving rise to director liability are expected to be incurred by the Company going forward:

- (a) wages and vacation pay;
- (b) source deductions payable to CRA; and
- (c) HST remittances to CRA.

This is Exhibit "A" to the Affidavit of Mark Chamberlain
sworn on January 27th, 2017



A Commissioner for the taking of affidavits, etc.

Consolidated financial statements of

PV Labs Inc.

September 30, 2016

Draft

PV Labs Inc.
September 30, 2016

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Draft

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Review Engagement Report

To the Directors of
PV Labs Inc.

We have reviewed the consolidated balance sheet of PV Labs Inc. as at September 30, 2016 and the consolidated statements of operations and deficit and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these consolidated financial statements.

Note 2 to the consolidated financial statements indicates that a management fee associated with the convertible loan described in Note 9 to the consolidated financial statements has not been recorded as a liability as at September 30, 2016. The effects of this departure from Canadian accounting standards for private enterprises on the unaudited financial statements would be an increase to accounts payable and accrued liabilities and to deficit by \$976,494.

Except for the departure, as described in the preceding paragraph, to record the management fee associated with the convertible loan, based on our review, nothing has come to our attention that causes us to believe that these consolidated financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has incurred losses and has a substantial accumulated deficit as at September 30, 2016 as a result of continued research and development expenditures. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Chartered Professional Accountants
Licensed Public Accountants
DATE

PV Labs Inc.

Consolidated statements of operations and deficit year ended September 30, 2016

(Unaudited)

	2016	2015
	\$	\$
Revenue	4,845,320	7,554,648
Cost of sales	3,100,885	3,880,826
Gross profit	1,744,435	3,673,822
Expenses		
Administrative	1,450,824	1,549,310
Research and development (Note 13)	1,815,873	1,856,670
Sales and marketing	567,527	772,670
	3,834,224	4,178,650
Amortization	354,339	467,427
Operating loss	(2,444,128)	(411,835)
Other income (expenses)		
Interest expense on long-term debt	(479,128)	(433,381)
Foreign exchange gain (loss)	303,471	(25,534)
Dividend and other income	575,007	339,292
Loss before income taxes	(2,045,128)	(1,091,478)
Provision for income taxes (Note 15)		27,183
Net loss for the year	(2,045,128)	(1,118,661)
Retained earnings, beginning of year	(7,969,845)	(6,851,184)
(Deficit) retained earnings, end of year	(10,014,973)	(7,969,845)

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

PV Labs Inc.
Consolidated balance sheet
as at September 30, 2016
(Unaudited)

	2016	2015
	\$	\$
Assets		
Current assets		
Cash	286,399	245,826
Accounts receivable	503,655	1,821,061
Inventories (Note 4)	1,690,801	1,217,050
Prepaid expenses and deposits	111,780	222,011
Investment tax credits receivable (Note 15)	1,258,296	1,348,274
Income taxes recoverable (Note 17)	108,324	110,612
Future income taxes (Note 15)	18,364	18,752
	3,977,619	4,983,586
Property, plant and equipment (Note 5)	651,408	790,282
Investments (Note 3)	564,452	564,452
Long Term Future Income Taxes	141,663	144,655
	5,335,142	6,482,975
Liabilities		
Current liabilities		
Bank indebtedness (Note 6)	509,000	271,000
Accounts payable and accrued liabilities	2,943,786	1,948,047
Government remittances	10,924	10,924
Deferred revenue	1,084,027	930,489
Short Term Debt (Note 7)	700,000	611,400
Warranty reserve	196,323	145,320
Promissory note payable (Note 11)	-	250,000
Convertible Debt (Note 9)	1,952,988	1,952,988
Current portion of Long-term debt (Note 8)	468,820	410,020
Current portion of capital lease obligations (Note 10)	29,310	37,263
	7,895,178	6,567,451
Future income taxes (Note 15)	564,031	575,942
Long-term debt (Note 8)	1,637,028	2,056,497
Long-term portion of capital lease obligations (Note 10)	11,437	10,989
	10,107,674	9,210,879
Lease commitments (Note 11)		
Shareholders' equity		
Share capital (Note 12)	4,790,537	4,790,037
Contributed surplus	451,904	451,904
(Deficit) retained earnings	(10,014,973)	(7,969,845)
	(4,772,532)	(2,727,904)
	5,335,142	6,482,975

Approved by the Board

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The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Director

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

1. Description of business and basis of presentation

PV Labs Inc. (the "Company") exists to capture and create the imagery and metadata to satisfy the next generation of geospatial applications. We are an advanced imaging solutions company specializing in the design and development of turnkey aerial imaging systems based on our core technology platforms. Our expertise is in the development of solutions that require high performance gimbal stabilization, optics and data management that leverage our common software and hardware components for customers in the Security & Surveillance, Public Safety, Airborne Geospatial and Entertainment markets.

While the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain adverse conditions and events cast substantial doubt on the validity of this assumption. The Company has incurred net losses over the past three years during which time new product development has been underway. According to management's current plan, the Company may need to raise additional capital through financing arrangements as the sales forecasts for future years are at levels which have not previously been achieved. With the exception of those described in Note 6 and 7, no agreements with lenders have been reached and there is no assurance that such agreements will be reached, nor that financing efforts will be successful.

At September 30, 2016, the Company violated certain financial covenants associated with their bank debt for which a waiver has been received from the lender as described in Note 6. There is no certainty the Company will meet such covenants in the future. As described in Note 8, the Company issued a convertible loan on January 18, 2013. The due date of the loan is January 20, 2014 and the lender is claiming payment of a management fee in the amount of \$976,494 in addition to the principal balance of the loan. The terms of this loan are currently in dispute as the shareholders did not approve these terms. The liability associated with this management fee has not been reflected in these consolidated financial statements.

The Company's continued existence is dependent on its ability to raise additional financing and to achieve and maintain profitable operations. The consolidated financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications would be necessary and such adjustments may be material.

2. Accounting policies

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises, except that management of the Company has not recorded an accrued management fee claimed by PVL Capital Corporation in the amount of \$976,494 as at September 30, 2016 (2015 - \$976,494). The consolidated financial statements reflect the following significant accounting policies:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, Pictorvision Holdings Inc. and Pictorvision Inc. On August 31, 2016, the operating entities of Pictorvision Inc and PV Labs USA merged. The newly merged company will operate as Pictorvision Inc.

2. Accounting policies (continued)

Foreign currency translation

The Company undertakes transactions in both Canadian and US dollars and as a result, is exposed to price risk due to fluctuations in foreign exchange rates. The Company's United States subsidiaries - Pictorvision Holdings Inc and Pictorvision Inc. are considered to be integrated foreign operations.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in net loss.

Use of estimates

The preparation of financial statements in conformity Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are required to determine the allowance for doubtful accounts, amortization of property, plant and equipment, accrued liabilities, warranty reserve, value of share options granted, deferred revenue, valuation of investment in GeoDigital International Inc., valuation of long-lived assets and future tax assets. Actual results could differ from these estimates.

Revenue

The Company's revenues consist of one or more of sales of Gyro-Stabilized camera system, software, engineering assistance, installation, training, and customer support. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of services. Multiple deliverable revenue arrangements are to be divided into more than one unit of accounting and the criteria for revenue recognition are considered separately for each accounting unit if the following criteria are met:

- (a) the delivered item(s) has stand alone value, and
- (b) when a general right of return exists for the delivered item, the delivery or performance of undelivered item is probable and substantially in the control of the Company.

For those contracts where the services are not essential to the functionality of any other element of transaction, the Company determines selling price for these services based upon vendor specific objective evidence, third party evidence or management's best estimate, as appropriate.

The arrangement consideration is allocated to all deliverables based on their relative selling prices. As a result of the hierarchy of selling prices, the Company is required to determine the selling price for each deliverable provided the conditions for separation have been met.

Rental revenues are recognized on a straight line basis over the rental term.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined based on standard cost. Net realizable value is the estimated selling price of the inventory less the estimated costs to make the sale. Cost for work in process and finished goods inventories includes material cost, direct labour cost and associated overhead.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is based on their estimated useful lives using the straight-line method at the following rates:

Office furniture	5 years
Computer equipment	4 years
Rental equipment	10 years
Software	1 year
Equipment	3-5 years
Leaseholds	18 months

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Warranty reserves

The Company's products are covered by limited warranty plans that generally range up to one year. A liability for the expected cost of warranty claims is established when services are sold and the related revenue is recognized. The amount of the warranty liability reflects an estimate of the expected future costs of honouring obligations under the warranty plan. In estimating the warranty liability, historical material replacement costs and associated labour to correct the product failure are considered. Should future product failure rates and/or replacement costs differ from historical levels, revisions to the estimated warranty liability may be required.

Stock-based compensation

The Company determines the fair value of stock options or awards on their grant date and records the fair value as compensation expense over the period the stock options vest or the shares are allocated, with a corresponding increase to contributed surplus. When options are exercised or awards are issued, the amount of proceeds, together with the amount recorded in contributed surplus are recorded in share capital. The fair value of the options and awards is determined using the Black-Scholes option pricing model.

Income taxes

The Company follows the future income taxes method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

Research and development tax credits

Research and development tax credits are recognized when the qualifying expenses have been made and there is reasonable assurance of receiving them. Included in current assets is the expected receipt in relation to the 2016 claim year.

Research and development tax credits are accounted for using the cost reduction approach. Under this method credits related to current expenditures are included in the determination of the net income for the period while credits related to the acquisition of assets are deferred and amortized into income on the same basis as the related asset.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

2. Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, with the exception of the Company's investment in GeoDigital International Inc. (recorded at fair value).

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest method and recognized in net loss as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Company recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

The entire proceeds of the issue of convertible debt issued with warrants are allocated to the liability component; the equity component is measured as zero.

3. Investments

	2016	2015
	\$	\$
2,377,134 common shares and (September 30, 2015 - 2,377,134 common shares of GeoDigital International Inc.	564,427	564,427
150,000 common shares (September 30, 2015 - 150,000) of 2112929 Ontario Inc., representing a 32% equity interest	25	25
	<u>564,452</u>	<u>564,452</u>

The investment in Accreon Inc. was sold in 2015 year for a gain of \$331,213. An additional gain of \$2,877.37 was realized in 2016.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

4. Inventories

	2016	2015
	\$	\$
Raw materials	1,279,942	1,204,638
Work in progress	410,859	12,412
Finished goods	-	-
	<u>1,690,801</u>	<u>1,217,050</u>

The total amount of inventory expensed to cost of sales during the year amounted to \$ 1,795,239 (2015 - \$ 1,412,856).

5. Property, plant and equipment

	Cost	Accumulated amortization	Net book value	2015 Net book value
	\$	\$	\$	\$
Office furniture	33,933	337,965	5,966	8,316
Computer equipment	271,864	244,808	28,056	56,165
Rental equipment	1,128,024	1,610,984	517,040	529,198
Software	621,432	605,507	15,925	11,537
Equipment	404,180	319,759	84,421	182,455
Leaseholds	46,778	46,778	-	2,611
	<u>3,817,209</u>	<u>3,165,801</u>	<u>651,408</u>	<u>790,282</u>

Cost and accumulated amortization of equipment under capital lease totaled \$ 740,034 and \$ 702,691 respectively at September 30, 2016 (2015 - \$677,129 and \$626,548 respectively).

6. Bank indebtedness

The Company has an authorized revolving line of credit of \$600,000 (2015 - \$600,000) which bears interest at a 5.6% (2015 - interest at 5.6%) of which \$509,000 is outstanding at September 30, 2016 (2015 - \$271,000). The bank indebtedness is secured by a General Security Agreement covering all assets of the Company and ranking in priority to the long-term debt in Note 8. The financial covenants for the borrowing facility have not been updated from 2012 and require that the Company maintain on a consolidated basis for the Canadian entity (i) A ratio of Current Assets to Current Liabilities of not less than 1.25:1 and (ii) a ratio of Total Liabilities to Tangible Net Worth of not greater than 2.5:1. The Company was in violation of these covenants at September 30, 2016 and September 30, 2015, and a waiver has been obtained.

7. Short-term debt

On August 4, 2016, the Company received approval of financing of up to \$1,000,000 against its 2016 scientific research and experimental development tax credits ('SR&ED') which bears interest at 15.00% per year. At September 30, 2016 \$700,000 is outstanding (2015 - 611,400). The loan is secured by a General Security Agreement covering all assets of the Company and ranking in priority to the long-term debt in Note 8. The maturity date of the loan is June 30, 2017.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

8. Long-term debt

On April 25, 2011, the Company secured a subordinate financing debt with the Business Development Bank of Canada ("BDC") for \$2,500,000. As at September 30, 2015, the Company has drawn \$2,466,517 (2015 - \$2,466,517).

On January 31, 2014, the terms of the BDC loan were amended so as to provide (1) Maturity date of December 23, 2020, (2) Fixed Interest rate at 6% per year for the 12 months ending January 31, 2015 and then 9% on February 1, 2015 until maturity in 2020, (3) The principal will be repaid over 65 consecutive monthly instalments of \$37,500 commencing on July 23, 2015 followed by one installment of \$62,500 on December 23, 2020. On August 11, 2015, the terms of the loan were further amended to have the monthly instalments commence on December 23, 2015 with one payment of \$ 41,200 followed by 62 monthly payments of \$ 40,980.

The Financial covenants tied to the debt are that the Company must maintain, on a consolidated basis, a long-term debt to equity ratio on a combined basis not exceeding 0.25:1 (measured quarterly) and a minimum working capital amount (measured quarterly) representing 10% of the Company's combined annual gross sales of the previous year, revised yearly 90 days after each year end, for the duration of this loan. For covenant calculation purposes, this long-term debt and the Convertible Debt (Note 9) are treated as equity. **The Company did not meet these covenants at September 30, 2015 (September 30, 2015 - met covenants).**

Collateral on the debt consists of a general security agreement from PV Labs Inc. subordinate only to the bank, corporate guarantees supported by general security agreements from PV Labs (USA) Inc., Pictorvision Holdings Inc., and Pictorvision Inc. The debt also contains a conditional guarantee from a member of the board of directors who is also a shareholder along with assignment of the life insurance policy from this individual for \$2,500,000. As per the amended agreement dated August 11, 2015 principal repayments in each of the five years is as follows:

	\$
2017	468,820
2018	511,440
2019	511,440
2020	511,440
2021	127,820
	2,130,960

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

9. Convertible loan

On January 30, 2013, the Company entered into a convertible loan with PVL Capital Corporation ("PVLCC") in the amount of \$1,952,988. PVLCC is a related party as its shareholders are also shareholders of the Company and 2 of the Company's Directors are shareholders of PVLCC. This convertible loan has been recorded at the exchange amount which approximates fair value and is the amount of the consideration established and agreed to by the related parties. At the option of the lender the convertible loan, including any outstanding interest, is convertible into shares at a conversion rate of one (1) common share for every sixty three cents (\$0.63) of the converted loan. The collateral for the convertible loan is (1) a security position on the shares of GeoDigital Inc. and an interest in the intellectual property owned by the Company both subordinated to the Royal Bank of Canada and the Business Development Bank of Canada and (2) a general security agreement also subordinated to the security interest of Royal Bank of Canada, Business Development Bank of Canada and equipment leases. The convertible loan bears interest at 10% per annum and sets the due date as January 20, 2014. In addition to the outstanding loan amount, PVLCC is claiming payment of an accrued management fee equal to \$0.50 of every \$1.00 of loans. The total management fee claimed as of September 30, 2015 is \$976,494. The validity of the terms of this loan are currently in dispute as the shareholders did not approve certain of the terms claimed by PVLCC. The outcome of this dispute is not known at this time. The liability associated with this management fee has not been reflected in these consolidated financial statements.

10. Capital lease obligations

The following is a schedule of future minimum lease payments under capital leases:

	\$
2017	32,616
2018	8,605
2019	3,478
	<u>44,699</u>
Less: amount representing average interest at 9.7% per annum	(3,952)
	<u>40,747</u>
Less: current portion	(29,310)
	<u>11,437</u>

11. Promissory note payable

This amount is non-interest bearing and is secured by the specific asset purchased under a general security agreement. Under the terms of the note, both the Company and the holder have the option to demand sale of the secured asset, at which time each party would receive 50% of the sale proceeds and the note would be cancelled. The promissory note was forgiven in FY 2016 and the secured asset was sold to the holder of the Promissory note for 50% of the Market value of \$ 220,000 CAD

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

12. Share capital

Authorized, unlimited number

Common shares

Class A special shares, preferred, non-voting, non-cumulative at a maximum rate of 8% per year, retractable, redeemable at \$100 per share

Issued

	2016	2015
	\$	\$
6,880,828 (2015 - 6,880,828) common shares	4,790,037	4,790,037

Common shares

	Shares	Amount
	#	\$
Balance, October 1, 2014	6,880,828	4,790,037
Issued during the year	-	-
Transferred from contributed surplus	-	-
Balance, September 30, 2015	6,880,828	4,790,037
Issued during the year	50,000	500
Balance, September 30, 2016	6,930,828	4,790,537

13. Stock based compensation

A summary of options issued and exercisable as at September 30, 2016 is as follows:

Price	Outstanding	Weighted average contractual life (years)	Exercisable
\$			
0 - 0.34	150,000	0.55	150,000
1.27 - 5.79	70,000	0.67	70,000
	220,000	0.61	220,000

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

13. Stock based compensation (continued)

A summary of options issued and exercisable as at September 30, 2016 is as follows:

Price	Outstanding	Weighted average contractual life (years)	Exercisable
\$			
0 - 0.34	150,000	0.6	150,000
1.27 - 5.79	70,000	0.7	70,000
	220,000	0.6	220,000

The Company estimated the fair value of these options at the grant date using the Black-Scholes option pricing model with the following assumptions for the year ended September 30, 2015 and the year ended September 30, 2014: volatility - 30%, dividends - 0%, interest rate 1.35% to 3.38%; and an expected life between 1.3 to 2.7 years.

Compensation expense of nil (2015 - \$ 3,963) has been recorded in the consolidated statement of operations in relation to the stock option awards granted to employees in previous years that vested during the year ending September 30, 2016. The compensation recovery in previous year relates to a change in estimate in regards to future performance conditions that impact the vesting of the management stock options, the current year resulted in a compensation expense.

14. Lease commitments

The Company leases offices and equipment under operating leases. Future lease payments aggregate \$378,538 and include the following amounts payable over the next four years:

	\$
2017	165,127
2018	136,695
2019	67,380
2020	9,336
	<u>378,538</u>

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

15. Investment tax credits

The Company has recorded scientific research and development income tax credits in the amount of **\$1,300,328** as a reduction to expenses for fiscal 2016 (2015 - \$1,348,274).

16. Income taxes

The Company has non-capital losses amounting to approximately \$XX (2015 - \$4,889,357) which can be applied to reduce future income taxes. These losses begin to expire in 2030. The income tax benefit related to \$XX of these carried forward losses has been recorded in the accounts while \$XX has not been.

The Company also has approximately \$5,618,457 (2015 - \$4,352,537) in SR&ED expenditures, which can be used to reduce future taxable income. These deductions have an unlimited carryforward period. The income tax benefits related to these expenditures have not been reflected in the accounts. In addition the Company has unused SR&ED investment tax credits carryforward which can be used to reduce future income taxes payable in the amount of \$994,513 (2015 - \$982,178). The expected future recovery of these investment tax credits has not been reflected in the accounts.

17. Statement of cash flows

Changes in non-cash working capital components:

	2016	2015
	\$	\$
Accounts receivable		(581,613)
Inventories		657,918
Prepaid expenses and deposits		86,631
Investment tax credits receivable		(348,274)
Accounts payable and accrued liabilities		(412,080)
Government remittances		-
Warranty reserve		18,781
Due from related party		56,545
Deferred revenue		282,076
Income taxes recoverable and payable		(15,727)
	-	(255,743)

18. Financial instruments

Interest rate risk

The financial risk is the risk to the Company's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to interest rate risk as management does not consider the risk to be material.

Foreign currency risk

Foreign currency risk is the risk to the Company's income that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk as it has U.S. based integrated subsidiaries and translation gains and losses that are included in net loss. The Company is also exposed to foreign currency fluctuations resulting from its Canadian entity sales to U.S. customers. The Company does not use derivative instruments at this time to reduce its exposure to foreign currency risk.

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

Draft

PV Labs Inc.

Notes to the consolidated financial statements

September 30, 2016

(Unaudited)

18. Financial instruments (continued)

Foreign currency risk (continued)

The consolidated balance sheet includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in U.S. dollars where the functional currency is Canadian dollars:

	2016	2015
	\$	\$
Cash	309,047	14,344
Accounts receivable	428,133	1,504,913
Accounts payable	968,738	467,669

Credit risk

The Company provides credit to its customers in the normal course of its operations. It obtains deposits based on contracted amounts sufficient to cover costs incurred in projects.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. As at September 30, 2016, the most significant financial liabilities are: bank indebtedness, accounts payable, accrued liabilities, short-term debt, long-term debt and convertible debt.

This is Exhibit "B" to the Affidavit of Mark Chamberlain
sworn on January 27th, 2017



A Commissioner for the taking of affidavits, etc.

PV Labs Inc.
Balance Sheet
As of 31 December 2016
31 Dec 16

ASSETS

Current Assets

Chequing/Savings

1010 · RBC S&S - CAD	(27,313.11)
1020 · RBC S&S - USD	410,238.92
1099 · Petty Cash - CND	40.30

Total Chequing/Savings 382,966.11

Accounts Receivable

1110 · A/R - Trade - CND	26,284.64
1120 · A/R - Trade - USD	285,384.18
1140 · A/R - Pictorvision Inc.	1,659,860.03
1160 · A/R - Pictorvision Holdings	8,548.25
1181 · Accrued Accts Recble-Trade CAD	1,491.60

Total Accounts Receivable 1,981,568.70

Other Current Assets

1200 · Inventory	1,121,964.41
1210 · Work in Progress	563,809.62
1250 · ITC Tax Receivable	1,265,000.00
1300 · Deposits - CAD	50,511.14
1310 · Deposits - USD	14,810.01
1340 · Deposits - Insurance - USD	6,759.14
1350 · Prepaids - CAD	19,475.80

Total Other Current Assets 3,042,330.12

Total Current Assets 5,406,864.93

Fixed Assets

1600 · Accumulated Depreciation	(2,479,907.25)
1610 · Computer Equipment	250,093.42
1615 · Leasehold Improvements	46,778.16
1620 · Office Furniture	343,933.49
1630 · Rental Equipment	923,977.12
1640 · Equipment - Other	413,397.11
1650 · Software	632,940.71

Total Fixed Assets 131,212.76

Other Assets

1700 · Future Tax Asset - Long Term	(0.15)
1800 · Investment in GeoDigital	564,427.02
1810 · Investment in PV Holdings	134.06
1830 · Investment in 2112929 OntarioIn	25.00
1850 · Investment in PV Labs (USA), In	100.00
1995 · Void Entries & Clearing Account	730.42

PV Labs Inc.
Balance Sheet
As of 31 December 2016
31 Dec 16

Total Other Assets	565,416.35
TOTAL ASSETS	6,103,494.04
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2110 · A/P - Trade - CAD	471,965.66
2120 · A/P - Trade - USD	1,389,304.39
Total Accounts Payable	1,861,270.05
Other Current Liabilities	
2400 · Accrued Liabilities - CAD	331,508.14
2410 · Accrued Liabilities - USD	62,636.96
2431 · Accrued Inventory - Max Acc.	260.00
2440 · Accrued Payroll	130,405.44
2450 · Accrued Vacation	59,200.00
2451 · Accrued Interest	644,020.88
2460 · Customer Advances - CND	453,094.31
2470 · Customer Advances - USD	841,284.13
2630 · Current lease commitments	23,878.37
2650 · Current Portion of BDC Loan	468,820.00
2711 · Warranty Reserve - PV Labs	207,468.99
2800 · Income Taxes Payable - Federal	6,704.33
2835 · SRED Loan	1,000,000.00
2930 · RBC Bank Loan	442,000.00
Total Other Current Liabilities	4,671,281.55
Total Current Liabilities	6,532,551.60
Long Term Liabilities	
2940 · Long-term Lease contracts	8,989.07
2941 · Convertible Debt	1,952,987.92
2960 · BDC Loan	1,637,027.53
Total Long Term Liabilities	3,599,004.52
Total Liabilities	10,131,556.12
Equity	
3010 · Retained Earnings	(8,200,901.26)
3030 · Contributed Surplus	451,904.49
3040 · Shareholders Equity	4,790,536.57
3060 · Paid Up Capital	(430,707.12)
Net Income	(638,894.76)

PV Labs Inc.
Balance Sheet
As of 31 December 2016
31 Dec 16

Total Equity	<u>(4,028,062.08)</u>
TOTAL LIABILITIES & EQUITY	<u><u>6,103,494.04</u></u>

	<u>Oct - Dec 16</u>
Ordinary Income/Expense	
Income	
4000 · Revenue	
4135 · Revenue - Upgrade	423,860.49
4140 · S&S - Services	0.00
4146 · S&S - PSIVision	<u>544,355.50</u>
Total 4000 · Revenue	<u>968,215.99</u>
 Total Income	 968,215.99
 Cost of Goods Sold	
5001 · Direct Costs	
5010 · Employee Costs, Direct	
5012 · Salary & Wages - S&S	50,339.84
5014 · Overtime - S&S	0.00
5016 · Group Insurance Benefits - S&S	3,845.66
5018 · Payroll Taxes - CPP & EI - S&S	1,405.23
5019 · EHT - S&S	<u>986.28</u>
Total 5010 · Employee Costs, Direct	56,577.01
 5139 · Less-Direct Labour & O/H Appld	 (5,693.96)
5040 · Freight	
5041 · Freight	10,818.15
5042 · Customs/Brokerage Fees - S&S	<u>1,901.88</u>
Total 5040 · Freight	12,720.03
 5050 · Travel, Direct	
5051 · Hotel, Direct - S&S	16,157.77
5052 · Airfare, Direct - S&S	10,724.16
5053 · Meals & Ent, Direct - S&S	6,938.06
5054 · Mileage, Direct - S&S	314.76
5055 · Vehicle & Other, Direct - S&S	<u>5,222.83</u>
Total 5050 · Travel, Direct	39,357.58
 5070 · Shop supplies	1,665.79
5071 · Shop Tools	267.88
5080 · Cellular - S&S	318.02
5100 · Rework	491.76
5109 · Handling fee	129.60
5110 · Material Proces	10,990.74
5120 · Warranty costs	11,145.73
5410 · Material	
5060 · Materials - S&S	112,571.81
5412 · Material Variance	4,116.01
5413 · Inventory Revalue	6,859.36
5414 · Adjust Stock	(583.89)

5415 · Cycle Count	85.14
5417 · Scrap	1,214.35
5418 · Purchase Variance	11,766.13
5431 · Kanban	<u>(32.16)</u>
Total 5410 · Material	135,996.75
5510 · Sub-Contract	269,179.20
5300 · Other - Penalty	<u>22,757.96</u>
Total 5001 · Direct Costs	555,904.09
5002 · Manufacturing Overhead Costs	
5200 · Employee Costs, MOH	
5201 · Employee Salary & Wages	86,208.62
5203 · Group Insurance Benefits	2,879.25
5205 · Payroll Taxes - CPP & EI	2,945.19
5206 · EHT	1,692.28
5211 · IRAP funding	<u>(2,785.00)</u>
Total 5200 · Employee Costs, MOH	90,940.34
5215 · Less-Indirect Labour & OH Appld	(9,583.84)
5230 · Cellular, MOH - S&S	<u>45.48</u>
Total 5002 · Manufacturing Overhead Costs	<u>81,401.98</u>
Total COGS	<u>637,306.07</u>
Gross Profit	330,909.92
Expense	
6000 · General & Admin Expenses	
6010 · Employee Costs, G&A	
6020 · Salary & Wages	116,768.76
6032 · Group Insurance Benefits	3,917.51
6036 · Payroll Taxes - CPP & EI	648.09
6038 · EHT	<u>2,286.54</u>
Total 6010 · Employee Costs, G&A	123,620.90
6100 · Insurance	
6112 · Insurance - Aircraft Products	2,330.18
6116 · Insurance - General Liability	8,440.91
6118 · Insurance - Nonowned Aircraft	1,081.87
6120 · Insurance - Ocean Marine	416.10
6135 · Insurance - WSIB	4,500.00
6137 · Insurance - D&O	1,944.00
6139 · Insurance - Key Man	<u>1,964.25</u>
Total 6100 · Insurance	20,677.31
6140 · Bank, Interest & Penalties	

6142 · Bank Charges	3,771.31
6144 · Credit Card Charges	2,235.99
Total 6140 · Bank, Interest & Penalties	6,007.30
6150 · Courier & Postage	
6152 · Courier	190.10
6154 · Postage	248.32
Total 6150 · Courier & Postage	438.42
6165 · Employee Activities	601.82
6170 · Facility Expenses	
6172 · Janitorial	2,383.86
6176 · Rent	30,256.26
6178 · Security - Facility	84.00
6175 · Security - IT	5,200.00
6179 · Facility Maintenance	385.74
6180 · Utilities	
6182 · Hydro & Gas	6,876.88
6184 · Telephone & Telecomm	
6186 · Internet	3,982.37
6188 · Telephone	3,671.79
Total 6184 · Telephone & Telecomm	7,654.16
Total 6180 · Utilities	14,531.04
Total 6170 · Facility Expenses	52,840.90
6200 · Leases	
6210 · Equipment Leases	61.50
6220 · Photocopier Lease	2,320.77
6221 · Software lease	3,781.50
Total 6200 · Leases	6,163.77
6230 · Office Supplies	
6235 · Supplies, IT	1,793.09
6240 · Supplies, Office	1,079.60
6245 · Supplies, Kitchen	259.44
Total 6230 · Office Supplies	3,132.13
6250 · Outside Services	
6255 · Bottled Water	89.85
6290 · Payroll Service	1,169.43
Total 6250 · Outside Services	1,259.28
6265 · Professional Fees	
6270 · Accounting & Tax	7,000.00
6275 · Consulting	18,000.00

6280 · Legal	617.92
6295 · Training & Education	90.00
Total 6265 · Professional Fees	25,707.92
6350 · Travel, G&A	
6365 · Meals & Entertainment	67.91
6370 · Transportation & Other	23.30
Total 6350 · Travel, G&A	91.21
6395 · Cellular	911.00
6396 · Dues Fees & Subscriptions	287.85
6800 · Shared Service Fees	
6805 · Contra Shared Service Fees	(15,978.40)
Total 6800 · Shared Service Fees	(15,978.40)
Total 6000 · General & Admin Expenses	225,761.41
6380 · Depreciation Expense	37,478.79
6500 · R&D Expenses	
6510 · Employee Costs, R&D	
6520 · Salary & Wages	376,560.12
6528 · Overtime - R&D	0.00
6532 · Group Insurance Benefits	11,596.32
6536 · Payroll taxes CPP and EI	2,132.08
6538 · EHT	7,372.21
Total 6510 · Employee Costs, R&D	397,660.73
6560 · Supplies	
6672 · Supplies R&D - PV15	15.16
Total 6560 · Supplies	15.16
6600 · Prof. Fees	
6620 · Training & Education	220.00
Total 6600 · Prof. Fees	220.00
6680 · Telephone & Telecomm	
6685 · Cellular	1,310.61
Total 6680 · Telephone & Telecomm	1,310.61
6690 · Travel, R&D	
6698 · Transportation & Other	33.16
Total 6690 · Travel, R&D	33.16
6700 · R&D Programs	
6704 · Mini Eclipse IRAD	18,708.63
6713 · Mini Eclipse - NRE	9,381.35
6706 · PSI - Materials	12,201.91

6707 · PSI - Contractors	(9.66)
6708 · SO 346-PVU IRAD-Eng Support WOs	200.00
6710 · PV 15 - Materials	38,331.58
6727 · PV 15 - NRE Costs	3,883.22
6711 · PV 15 - Contractors	0.00
6726 · PV 15 - Freight	4,612.00
Total 6700 · R&D Programs	87,309.03
Total 6500 · R&D Expenses	486,548.69
6900 · Sales & Marketing	
6905 · Employee Costs, M&S	
6915 · Salary & Wages - S&S	88,645.62
6935 · Group Insurance Benefits - S&S	1,956.01
6945 · Payroll Taxes - CPP & EI - S&S	0.00
6946 · EHT - S&S	1,735.23
Total 6905 · Employee Costs, M&S	92,336.86
6950 · Marketing Costs	
6958 · Website expenses	132.14
6985 · Associations & Memberships	269.97
Total 6950 · Marketing Costs	402.11
6960 · Travel - Selling	
6969 · Travel - Airfare	588.43
6961 · Travel - Meals & Entertainment	1,822.64
6968 · Travel - Hotel	412.08
6962 · Travel - Transportation & Other	207.06
Total 6960 · Travel - Selling	3,030.21
6970 · Cellular - Sales	746.73
Total 6900 · Sales & Marketing	96,515.91
Total Expense	846,304.80
Net Ordinary Income	(515,394.88)
Other Income/Expense	
Other Income	
8040 · Miscellaneous Income	500.00
Total Other Income	500.00
Other Expense	
7050 · Exchange Gain/Loss	(15,160.45)
8000 · Interest Expense	139,160.33
Total Other Expense	123,999.88

This is Exhibit "C" to the Affidavit of Mark Chamberlain
sworn on January 27th, 2017



A Commissioner for the taking of affidavits, etc.

LOOPSTRA NIXON LLP
BARRISTERS AND SOLICITORS



R. Graham Phoenix
Direct Line: (416) 748-4776
E-mail: gphoenix@loonix.com

January 18, 2017
File No. TBD

VIA COURIER

PV LABS INC.
1074 Cooke Blvd.
Burlington, ON L7T 4A8
(Mailing Address)

PV LABS INC.
175 Longwood Road – Suite 400A
Hamilton, ON L8P 0A1
(Registered Office)

Dear Sir/Madam:

**Re: DEMAND FOR PAYMENT
and SERVICE OF SECTION 244 NOTICE**

We are the solicitors for PV Capital Corporation (the "Lender") in respect of the matters set out herein.

Indebtedness

Pursuant to the promissory note dated January 18, 2013, the term sheet dated January 18, 2013 and the loan agreement date June 30, 2013 (together, the "Loan Agreements"), the Lender agreed to and did advance certain funds to PV Labs Inc. (the "Borrower") on a secured basis.

As at January 18, 2017, the Borrower is indebted to the Lender pursuant to the Loan Agreements in the aggregate amount of \$4,111,396.45, plus interest, fees and costs continuing to accrue (the "Indebtedness").

In addition, the Borrower, is liable for such legal costs and other enforcement costs as may be incurred by Lender in respect of enforcement of the Loan Agreements and the Security (defined below), from time to time, the particulars of which can be provided upon request (collectively, the "Costs").

The Borrower is in default of its obligations under the Loan Agreements, including but not limited to its payment obligations thereunder.



Page 2

Security

As security for the payment and performance of all of its indebtedness, liabilities and obligations to the Lender, the Borrower executed:

- (a) a general security agreement in favour of the Lender dated January 17, 2013;
- (b) a security agreement in favour of the Lender dated January 18, 2013 respect of certain intellectual property; and
- (c) a share pledge in favour of the Lender dated January 18, 2013 in respect of a certain shares of GeoDigital International Inc.,

(collectively, the "Security"), which Security is registered under the Ontario *Personal Property Security Act*.

Demand

As a result of the Borrower's defaults and the Lender's rights under the Loan Agreements and the Security, the Lender is entitled to and does hereby demand from the Borrower the immediate payment in full of the Indebtedness and Costs by or before 5:00p.m. on January 28, 2017.

To obtain an updated pay-out statement, including Costs, and to arrange delivery of payment, please contact the undersigned.

If the Borrower fails to pay the Indebtedness and Costs on or before January 28, 2017, the Lender will pursue such legal rights and remedies for the collection of such amounts as it may deem fit, including without limitation the right to exercise any and all rights and remedies available at law, under the Loan Agreements and the Security, and in equity. The Lender may exercise such rights without further notice to the Borrower.

In the event that the Borrower qualifies as an "insolvent person" within the meaning of such term under the *Bankruptcy and Insolvency Act*, we enclose herewith a Notice of Intention to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act*.

LOOPSTRA NIXON LLP
BARRISTERS AND SOLICITORS




Page 3

In the interim, the Lender expressly reserves all of its rights to take whatever measures it may consider necessary or appropriate to preserve and protect its interests and to pursue its remedies under the Loan Agreements and the Security, any statute, at common law and/or in equity, including without limitation the right to seek the appointment of a receiver by a Court of competent jurisdiction. Nothing in this letter shall be construed as a waiver of such rights.

Yours very truly,

LOOPSTRA NIXON LLP

Per:


R. Graham Phoenix

Enclosure

NOTICE OF INTENTION TO ENFORCE SECURITY

(Subsection 244(1) of the *Bankruptcy and Insolvency Act*)

[THE EXECUTION AND DELIVERY OF THIS NOTICE DOES NOT CONSTITUTE AN ACKNOWLEDGEMENT THAT THE CREDITOR IS OBLIGED TO SEND THIS NOTICE OR THAT SECTION 244 OF THE BANKRUPTCY AND INSOLVENCY ACT APPLIES TO THIS CASE OR AN ALLEGATION THAT THE DEBTOR IS AN INSOLVENT PERSON WITHIN THE MEANING OF THE BANKRUPTCY AND INSOLVENCY ACT.]

TO: **PV LABS INC.**
 1074 Cooke Blvd.
 Burlington, ON L7T 4A8
(Mailing Office)

PV LABS INC.
 175 Longwood Road – Suite 400A
 Hamilton, ON L8P 0A
(Registered Office)

TAKE NOTICE that:

1. PV Capital Corporation (the "Lender"), a secured creditor, intends to enforce its security on all of your present and after acquired property, assets and undertaking and/or any proceeds thereof.
2. The security that is to be enforced comprises;
 - (a) a general security agreement in favour of the Lender dated January 17, 2013;
 - (b) a security agreement in favour of the Lender dated January 18, 2013 respect of certain intellectual property; and
 - (c) a share pledge in favour of the Lender dated January 18, 2013 in respect of a certain shares of GeoDigital International Inc.,
 (collectively, the "Security").
3. The total amount of indebtedness secured by the Security and sought via the demand delivered herewith is \$4,111,396.45 as at January 18, 2017, together with accruing interest and all other charges and expenses of enforcement claimable thereunder.

4. The Lender will not have the right to enforce the security until the expiry of a 10-day period following the sending of this Notice, unless you consent to an earlier enforcement by execution of the attached waiver.

DATED at Toronto, this 18th day of January, 2017.

PV CAPITAL CORPORATION, by its
solicitors Loopstra Nixon LLP


Per: R. Graham Phoenix

WAIVER

The undersigned hereby waives the notice period provided for under section 244(2) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and consents to the immediate enforcement by PV Capital Corporation of its security described in the attached Notice of Intention to Enforce Security dated January 18, 2017.

DATED at _____, Ontario this ____ day of _____, 2017.

PV LABS INC.

per:

Title:

This is Exhibit "D" to the Affidavit of Mark Chamberlain
sworn on January 27th 2017



A Commissioner for the taking of affidavits, etc.

**REGISTRATIONS PURSUANT TO THE
PERSONAL PROPERTY SECURITY ACT (ONTARIO)**

AGAINST

PV Labs Inc.

(Date of Search: January 12, 2017)

LEGEND:

- CG - Consumer Goods;
- I - Inventory;
- E - Equipment;
- A - Accounts;
- O - Other;
- MV - Motor Vehicle
- GCD - General Collateral Description

SECURED PARTY	DEBTOR(S)	REGISTRATION NO./ FILE NO.	REGISTRATION/ RENEWAL PERIOD	COLLATERAL CLASSIFICATION/ DESCRIPTION
Royal Bank of Canada 180 Wellington St W BSC 3 rd Floor Toronto, Ontario M5J 1J1	PV Labs Inc.	20081015 1054 1529 7708 / 649249659	5 years	I, E, A, O, MV GCD: Post-Amalgamation Renewal: 5 years
Royal Bank of Canada 180 Wellington St W BSC 3 rd Floor Toronto, Ontario M5J 1J1	PV Labs Inc.	20081015 1054 1529 7707 / 649249641	5 years	I, E, A, O, MV GCD: Post-Amalgamation Renewal: 5 years
Business Development Bank of Canada	PV Labs Inc.	20130916 1438 1530 0492	5 years	Renewal: 5 years
		20110304 1023 1295 5454 / 668043819	8 years	I, E, A, O, MV

380 Wellington Street London, Ontario N6A 5B5		20140310 1530 1295 6696		Amendment: to add secured creditor.
Business Development Bank of Canada, BDC Capital Inc. 380 Wellington Street London, Ontario N6A 5B5		20140326 1459 1862 8145		Subordination: As provided in respect of assets set out in the priorities agreement between BDC Capital Inc. and Espresso Capital Tax Credit Fund III Limited Partnership, Reference File No. 668043819, Registration No. 20110304 1023 1295 5454 in favour of BDC Capital Inc. will be subordinated to Reference File No. 694230462 Registration No. 20140306 1603 1862 6903 in favour of Espresso Capital Tax Credit Fund III Limited Partnership.
BDC Capital Inc. 148 Fullarton Street, Suite 1000 London, Ontario N6A 5P3		20140407 1648 1295 6738		Amendment: Corrected secured party address.
		20150305 1606 1295 7327		Renewal: 2 years
Xerox Canada Ltd. 33 Bloor St. E. 3 rd Floor Toronto, Ontario	PV Labs Inc.	20121002 1701 1462 2198 / 681881499	6 years	E, O

M4W 3H1							
PVL Capital Corporation 1685 Main Street West Suite 25 Hamilton, Ontario L8S 1G5	PV Labs Inc.	20130118 1709 1862 6811 / 684197541	5 years	I, E, A, O			
		20140326 1459 1862 8146					Subordination: As provided in respect of assets set out in the priorities agreement between PV Capital Corporation and Espresso Capital Tax Credit Fund III Limited Partnership, Reference File No. 684197541 Registration No. 20130118 1709 1862 6811 and Reference File No. 684429381 Registration No. 20130131 0959 1862 7776 in favour of PV Capital Corporation will be subordinated to Reference File No. 694230462 Registration No. 20140306 1603 1862 6903 in favour of Espresso Capital Tax Credit Fund III Limited Partnership.
PVL Capital Corporation 1685 Main Street West Suite 25 Hamilton, Ontario L8S 1G5	PV Labs Inc.	20130131 0959 1862 7776 / 684429381	5 years	A, O			
PVL Capital Corporation 1685 Main Street W	PV Labs Inc.	20130131 0959 1862 7775 / 684429372	5 years	O			

Suite 25 Hamilton, Ontario L8S 1G5					GCD: A continuing and specific security interest in all patents and intellectual property now owned or hereafter acquired by the Debtor.
National Leasing Group Inc. 1525 Buffalo Place (2647732) Winnipeg, Manitoba R3T 1L9	PV Labs Inc.	20131213 1120 6005 0816 / 692585271		4 years	E GCD: All computer software of every nature or kind described in lease number 2647735 between the Secured Party, as Lessor and the Debtor as Lessee, as amended from time to time, together with all attachments, accessories and substitutions.
National Leasing Group Inc. 1525 Buffalo Place Winnipeg, Manitoba R3T 1L9	PV Labs Inc.	20160106 1008 6005 5402 / 713107359		2 years	E GCD: All computer software of every nature or kind described in agreement number 2744537, between the Secured Party and the Debtor, as amended from time to time, together with all attachments, accessories and substitutions.
Dell Financial Services Canada Limited 155 Gordon Baker Rd Suite 501 North York, Ontario	PV Labs Inc.	20160113 1435 8077 8302 / 713288646		3 years	E, O GCD: All Dell and non-Dell computer equipment and peripherals wherever located

M2H 3N5				<p>heretofore or hereafter leased to Debtor by Secured Party pursuant to Lease 200-3411025-030 together with all substitutions, additions, accessions and replacements thereto and thereof now and hereafter installed in, affixed to, or used in conjunction with such equipment and proceeds thereof together with all rental or installment payments, insurance proceeds, other proceeds and payments due or to become due and arising from or relating to such equipment. Proceeds all present and after-acquired personal property.</p>
<p>Dell Financial Services Canada Limited 155 Gordon Baker Rd Suite 501 North York, Ontario M2H 3N5</p>	<p>PV Labs Inc.</p>	<p>20160113 1031 8077 8247 / 713278737</p>	<p>1 year</p>	<p>E, O GCD: All Dell and non-Dell computer equipment and peripherals wherever located heretofore or hereafter leased to Debtor by Secured Party pursuant to lease 200-3411025-029 together with all substitutions, additions, accessions and replacements thereto and thereof now and hereafter installed in, affixed to, or used in conjunctions with such equipment and proceeds</p>

<p>National Leasing Group Inc. 1525 Buffalo Place Winnipeg, Manitoba R3T 1L9</p>	<p>PV Labs Inc.</p>	<p>20160118 1204 6005 5563 / 713368674</p>	<p>2 years</p>	<p>thereof together with all rental or installment payments, insurance proceeds, other proceeds and payments due or to become due and arising from or relating to such equipment. Proceeds all present and after-acquired personal property.</p>
<p>Xerox Canada Ltd. 33 Bloor St. E. 3rd Floor Toronto, Ontario M4W 3H1</p>	<p>PV Labs Inc.</p>	<p>20160301 1401 1462 9733 / 714408129</p>	<p>6 years</p>	<p>E GCD: All computer software of every nature or kind described in agreement number 2749580, between the Secured Party and the Debtor, as amended from time to time, together with all attachments, accessories and substitutions.</p>
<p>Dell Financial Services Canada Limited 155 Gordon Baker Rd Suite 501 North York, Ontario M2H 3N5</p>	<p>PV Labs Inc.</p>	<p>20160429 1436 8077 6187 / 716165856</p>	<p>3 years</p>	<p>E, O GCD: All Dell and non-Dell computer equipment and peripherals wherever located heretofore or hereafter leased to Debtor by Secured Party pursuant to an equipment lease</p>

				<p>together with all substitutions, additions, accessions and replacements thereto and thereof now and hereafter installed in, affixed to, or used in conjunction with such equipment and proceeds thereof together with all rental or installment payments, insurance proceeds, other proceeds and payments due or to become due and arising from or relating to such equipment. Proceeds all present and after-acquired personal property.</p>
<p>902878 Ontario Limited 2201 Lakeshore Road Burlington, Ontario L7R 1A8</p>	<p>PV Labs Inc.</p>	<p>20160804 1203 6083 4724 / 719270856</p>	<p>5 years</p>	<p>I, E, A, O</p>
<p>National Leasing Group Inc. 1525 Buffalo Place Winnipeg, Manitoba R3T 1L9</p>	<p>PV Labs Inc.</p>	<p>20161215 1623 6005 2079 / 723430035</p>	<p>2 years</p>	<p>E GCD: All computer software & license and related components of every nature or kind described in agreement 2797733, between the Secured Party and the Debtor, as amended from time to time, together with all attachments, accessories and substitutions.</p>

<p>National Leasing Group Inc. 1525 Buffalo Place Winnipeg, Manitoba R3T 1L9</p>	<p>PV Labs Inc.</p>	<p>20170112 1116 6005 2440 / 724024638</p>	<p>2 years</p>	<p>E GCD: All computer softwares of every nature or kind described in agreement number 2797817, between the Secured Party and the Debtor, as amended from time to time, together with all attachments, accessories and substitutions.</p>
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This is Exhibit "E" to the Affidavit of Mark Chamberlain
sworn on January 27th, 2017



A Commissioner for the taking of affidavits, etc.

AMENDED AND RESTATED SUBORDINATION AND PRIORITIES AGREEMENT

*Dated the ___ day of January, 2013
Province of Ontario*

BETWEEN: **BDC CAPITAL INC.,** a wholly-owned subsidiary of
BUSINESS DEVELOPMENT BANK OF CANADA,
(hereinafter called "BDC");

AND: **ROYAL BANK OF CANADA**
(hereinafter called the "Bank");

AND: **FVL CAPITAL CORPORATION**
(hereinafter called the "FVL");

AND: **PV LABS INC.**
(hereinafter called the "Borrower");

AND: **PV LABS (USA) INC.**

AND: **PICTORVISION HOLDINGS INC.**

AND: **PICTORVISION INC.**

AND: **TRIVARIS LTD.**

AND: **MARK CHAMBERLAIN**

(PV Labs (USA) Inc., Pictorvision Holdings Inc., Pictorvision Inc., and Mark Chamberlain hereinafter collectively called the "Consenting Parties")

WHO DECLARE AS FOLLOWS:

WHEREAS the Bank has granted or intends to grant to Borrower various credit facilities not exceeding an aggregate amount of Eight Hundred and Twenty-Five Thousand Dollars (\$825,000.00) pursuant to a facilities letter dated March 8, 2012 as amended September 5, 2012, a copy which is appended as Schedule "A" hereto (hereinafter collectively called the "Bank Credit", as it or they may have been and may in the future be amended, modified, replaced or restated from time to time) in guarantee of which, *inter alia*, the Borrower has granted or intends to grant in favour of the Bank various security (the "Bank Security") (the "Bank Credit" and the "Bank Security" being hereinafter collectively called the "Bank Debt");

WHEREAS BDC submitted to the Borrower an offer of financing dated February 24, 2011 as amended March 3, 2011 and as it may have been and may in the future be further amended, modified, replaced or restated from time to time (the "BDC Offer"), relating to, *inter alia*, the granting of a subordinated loan in the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00), the conditions for which are provided in the BDC Offer as well as in a loan agreement dated the 25th day of April, 2011 (the "Loan Agreement"), copies of which are appended hereto as Schedule "B" in guarantee of which, *inter alia*, the Borrower has granted or intends to grant various security in favour of BDC (collectively the "BDC Security") (the "BDC Offer", the "Loan Agreement" and the "BDC Security" being hereinafter collectively called the "Subordinated Debt");

WHEREAS PVL submitted to the Borrower an offer of financing dated January 15, 2013 and accepted January 18, 2013, and as it may have been and may in the future be further amended, modified, replaced or restated from time to time, whereby PVL has committed to providing up to Two Million Seven Hundred and Fifty Thousand Dollars (\$2,750,000.00) in loans to the Borrower (the "Commitment"), copies of which are appended hereto as Schedule "C", in guarantee of which, *inter alia*, the Borrower has granted or intends to grant to PVL an assignment of and security interest in the tax credit payable to it from the Canada Revenue Agency under the "Scientific Research and Experimental Development Tax Incentive Program" for the Borrower's 2012 tax year (the "SR&ED Tax Credit") and to pledge all of its shares in the capital of GeoDigital International Inc. (the "GeoDigital Position") along with various other security in favour of PVL (the "PVL Security") (the "Commitment" and the "PVL Security" being hereinafter collectively called the "PVL Debt");

WHEREAS the Lenders, as defined in Section 1.1.22 hereof, hereby wish to set forth their respective rights and remedies in respect of the security granted by the Borrower to each of them;

NOW THEREFORE AND IN CONSIDERATION OF THE COVENANTS AND CONDITIONS HERINAFTER DESCRIBED, AND FOR GOOD AND VALUABLE CONSIDERATION, THE PARTIES HERETO AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions.

Except as otherwise provided herein or unless the context otherwise requires, capitalized terms and expressions used in this Agreement and its preamble shall have the meaning set forth below:

- 1.1.1 "Additional Guarantors" means all of the Subsidiary Body Corporates and other persons now or hereinafter owned or controlled directly or indirectly by the Borrower;
- 1.1.2 "Affiliate" means any Person which, directly or indirectly, controls or is controlled by or is under common control of another. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of securities, or by contract or by any other means whatsoever. For greater certainty, the term "Affiliate" includes a Subsidiary Body Corporate;
- 1.1.3 "Agreement" and "Subordination Agreement" means this Subordination and Priorities Agreement;
- 1.1.4 "Bank Event of Default" means a Default or Demand for payment pursuant to any Loan Documents relating to the Bank Debt;
- 1.1.5 "Bank Notice of Default" has the meaning ascribed thereto in Paragraph 4.1.3 herein;
- 1.1.6 "Bank Security" means, individually or collectively, all Security granted or to be granted between the Borrower and the Bank to guarantee the repayment of the Bank Debt;
- 1.1.7 "BDC Event of Default" means an Event of Default pursuant to any Loan Documents relating to the Subordinated Debt;
- 1.1.8 "BDC Notice of Intention" has the meaning ascribed thereto in Subsection 3.7 herein;
- 1.1.9 "BDC Security" means, individually or collectively, all Security granted or to be granted between the Borrower and BDC to guarantee the repayment and performance of the Subordinated Debt;
- 1.1.10 "Borrower" means PV Labs Inc. as determined in accordance with the relevant Bank Credit or the BDC Offer or Loan Agreement, or the Commitment as the case may be, and any legal entity that may succeed same;
- 1.1.11 "Borrower Group" means the Borrower and each of its Affiliates including, without limitation, each Additional Guarantor;
- 1.1.12 "Borrower Group Assets" means (a) all of the present and after acquired undertaking, property and assets, real and personal, movable and immovable, of whatsoever nature and kind and wheresoever situate of the Borrower and its

Affiliates and (b) the shares of any Subsidiary Body Corporate owned by the Borrower, any Affiliate of the Borrower and each Additional Guarantor;

- 1.1.13 "Business Day(s)" means any day, except Saturday or Sunday, when the Bank is open to do business in Canada;
- 1.1.14 "Cash Proceeds of Realization" means the aggregate of (i) all Proceeds of Realization in the form of cash, and (ii) all cash proceeds of the sale or other disposition of non-cash Proceeds of Realization, which are available to the Lenders;
- 1.1.15 "Default" means the occurrence of any of the defaults or events of default specified in any Loan Document or in any Security entitling a Lender to Demand or accelerate payment of any obligation, either immediately or after a cure period or grace period, or failure of any member of the Borrower Group to pay any amount which is payable to the Bank on demand within the time specified for payment in a Demand made by the Bank;
- 1.1.16 "Demand" means any notification by a Lender to any member of the Borrower Group of a demand for payment under any Loan Documents or Security;
- 1.1.17 "Dollars" or "\$" means lawful money of Canada;
- 1.1.18 "Event of Default" means a Bank Event of Default or Default pursuant to any Loan Document relating to the Bank Debt, or a BDC Event of Default pursuant to any Loan Document relating to the Subordinated Debt, or a PVL Event of Default pursuant to the PVL Instruments relating to the PVL Debt, as the case may be;
- 1.1.19 "GAAP" means the generally accepted accounting principles in force in Canada, as accepted or established by the Canadian Institute of Chartered Accountants, as they may be modified from time to time, but applied in a consistent manner;
- 1.1.20 "Government Authority" means Canada, the province mentioned in Subsection 14.5 herein, and any other regional, municipal, local or other subdivision of that province, any other governmental organization of such jurisdiction, including any agency, commission, office, department, ministry, organization or other person carrying on executive, legislative, judicial, regulatory or administrative functions arising out of or related thereto;
- 1.1.21 "Intellectual Property" means all the intangible assets, present and future, of the Borrower, including but without limiting the generality of the foregoing, all its rights in any trademarks, registered or not, copyrights, including software, domain names, source codes, designs and manuals, industrial designs, inventions, patents and ongoing applications for patents, commercial secrets, know-how, integrated circuit topography, any confidential information, licence from third parties, end-user licence and any other intellectual property rights

(registered or not), their improvements and modifications as well as any right in any application relating to their protection, in Canada or elsewhere, of one or some of these Intellectual Property rights;

- 1.1.22 "Lenders" mean, as the case may be, the Bank, BDC, or PVL or any combination thereof;
- 1.1.23 "Life Insurance Policy" means the life insurance policy that is subject to the BDC Security, whether or not held by the Borrower, and described in Schedule "D" attached hereto;
- 1.1.24 "Loan Documents" mean any letter of intent, loan offer or other agreement relating to the loans and security in connection with the Bank Debt or the Subordinated Debt, or the PVL Debt, each as the case may be, as amended from time to time;
- 1.1.25 "Proceeds of Realization" or any part thereof means all proceeds (including money, choses in action, securities, assets and other property) derived from any sale or disposition of, or other enforcement or realization proceedings with respect to any of the Borrower Group Assets (a) after any demand, (b) upon any dissolution, liquidation, winding-up, reorganization (including any proposal under the Bankruptcy and Insolvency Act (Canada) and any reorganization under the Companies' Creditors Arrangement Act (Canada), bankruptcy, insolvency or receivership of any member of the Borrower Group or any other arrangement or marshalling of the Borrower Group Assets that is similar thereto, (c) upon the enforcement of, or any action taken with respect to, any of the Security, (d) as insurance or expropriation proceeds or any other payment representing indemnity or compensation for loss of, or damage to Borrower Group Assets or any part of them or representing indemnity or compensation for loss of, damage to or interruption in the business, operation or enjoyment of the Borrower's business or any proceeds thereof (including money, choses in action, securities, assets and other property), or (e) as a result of the exercise of any right of set-off or other similar right or remedy, in each case net of all costs, charges and expenses or liabilities incurred in connection with such sale, disposition, enforcement or realization, including legal fees and all proper costs, charges, expenses and liabilities of any Receiver;
- 1.1.26 "Purchase Money Obligation" means any indebtedness of the Borrower assumed or incurred to provide funds to pay all or part of the purchase price of tangible personal property or assets, including interest, costs and other amounts incurred in connection with such indebtedness, provided that the incurring of such indebtedness does not give rise to a default under either the Bank Security, the BDC Security, or the PVL Security and provided the Bank has provided any other Lender with its prior written consent to the incurring by the Borrower of same;
- 1.1.27 "Purchase Money Security" means any Security given, reserved, created, assumed or arising by operation of law, whether or not in favour of the

prevail, provided that nothing in this Agreement is intended to or will impair, as between any member of the Borrower Group and any of the Lenders, the obligations of any member of the Borrower Group to pay the Bank Debt, the Subordinated Debt, or the PVL Debt, as applicable, when due. For greater certainty, as between each Lender and any member of the Borrower Group, the applicable Loan Documents shall prevail.

- 1.5 **No Rights Conferred on Borrower Group.** Nothing in this Agreement will be construed as conferring any rights upon any member of the Borrower Group or any third party. The terms and conditions hereof are and will be for the sole and exclusive benefit of the Lenders. Each member of the Borrower Group, by its execution of this Agreement, hereby agrees to be bound by, and will act in accordance with, the terms, provisions and intent of this Agreement; however, such Borrower Group member will not take any right, benefit or advantage in it being a party to this Agreement, and this Agreement may be amended, modified, supplemented or restated without notice to, or the consent of, any member of the Borrower Group. Each member of the Borrower Group hereby consents to each Lender providing the other Lender with such information, financial or otherwise, regarding any member of the Borrower Group, the Bank Debt, the Subordinated Debt, or the PVL Debt as applicable, and the Security as may be deemed advisable by the Lenders from time to time.
- 1.6 **Accounting Terms.** Each accounting term used in this Agreement has the meaning generally ascribed to it by GAAP unless another definition is given herein, and any reference to an item of a balance sheet or income statement must be construed according to its presentation in the appropriate statement established in accordance with GAAP as modified from time to time by any accounting norms adopted by the Canadian Institute of Chartered Accountants.
- 1.7 **Singular Plural.** In this Agreement, words importing the singular number also include the plural and *vice versa*, and person (or persons) includes an individual, firm, company, corporation, government, governmental body or agency, unincorporated association or partnership. Information that is provided in the schedules hereto shall be consistent with the definitions, terms and conditions of this Agreement.
- 1.8 **Consent.** Each of the Lenders hereby consents to the:
- 1.8.1 indebtedness and obligations provided for in the Bank Credit, the Loan Agreement, and the Commitment;
 - 1.8.2 creation and issuance by the Borrower to the Bank of the Bank Security, to BDC of the BDC Security, and to PVL of the PVL Security; and
 - 1.8.3 existence of the Bank Debt, the Subordinated Debt, and the PVL Debt generally.

2 SUBORDINATION AND POSTPONEMENT TO PVL SECURITY

- 2.1 Notwithstanding any other provision of this Agreement, provided that (i) PVL has advanced the sum of at least \$1,000,000.00 to the Borrower on or before 5:00 p.m. on the fifth (5th) business day following execution of this Agreement by all the parties hereto, (ii) all

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indebtedness and liability of the Borrower to BDC is repaid in full by no later than June 15, 2013, such repayment being anticipated to occur from the proceeds of sale of the shares referred to in section 2.2 below, and (iii) PVL has not received any payments from the Borrower or any parent or subsidiary thereof before BDC has been repaid in full, save and except for payment of the SR&ED Tax Credit and regular scheduled interest payments (subject to Article 7):

- 2.1.1 the BDC Security and the Bank Security are hereby postponed and subordinated to the security constituted by the PVL Security with respect to the SR&ED Tax Credit and the GeoDigital Position solely, to the extent of the Borrower's indebtedness to PVL from time to time, together with all accrued interest thereon and all costs, charges and expenses incurred by PVL in connection therewith;
- 2.1.2 Other than the PVL Security with respect to the SR&ED Tax Credit and the GeoDigital Position, the PVL Debt and PVL Security shall in all other respects be fully subordinate to the Bank Debt and the Subordinated Debt, and the Bank Security and the BDC Security will have priority to the full extent of the Bank Debt and the Subordinated Debt, respectively, over the PVL Debt and the PVL Security in all respects at all times.

2.2 PVL agrees with the Bank and BDC that, at any time, the Borrower may make and the Bank and BDC may accept any payment or prepayment in respect of the Bank Debt and/or the Subordinated Debt respectively; or any part thereof, whether or not any Default has occurred, all in accordance with the Bank Credit and the BDC Offer and Loan Agreement, respectively. Nothing contained in this Article 2 will prevent, limit or restrict the Bank and/or BDC in any manner from exercising all or any of their rights or remedies otherwise permitted under the terms of the Bank Security and the BDC Security in connection with the Bank Debt and the BDC Debt, respectively.

2.3 For greater certainty, the subordination herein provided shall apply to any guarantee granted now or hereafter by any Subsidiary Body Corporate, any Affiliate of the Borrower or any Additional Guarantor to the Lenders.

2.4 Unless otherwise acknowledged in writing by PVL, the subordination provided in this Article 2 does not affect the rights of PVL in any suretyship granted in its favour by any person, related or not to the Borrower, other than the suretyship granted by a Consenting Party a Subsidiary Body Corporate, any affiliate or any Additional Guarantors, nor the rights of PVL in any Security held in connection with such suretyship.

2.5 Subject to the foregoing provisions, the subordinations and postponements provided in this Article 2 shall remain in force for as long as the Borrower has not repaid its indebtedness in full to any of the Lenders, and neither the Bank, BDC, or PVL has cancelled the Bank Credit, the BDC Offer and Loan Agreement, or the PVL Instruments as the case may be, and shall apply in all events and circumstances regardless of:

- 2.5.1 any priority otherwise given by law to the PVL Security in connection with the Borrower Group Assets;
- 2.5.2 the respective dates of execution and registration attachment or perfection of the PVL Security, BDC Security as well as the Bank Security;

indebtedness and liability of the Borrower to BDC is repaid in full by no later than June 15, 2013, such repayment being anticipated to occur from the proceeds of sale of the shares referred to in section 2.2 below, and (iii) PVL has not received any payments from the Borrower or any parent or subsidiary thereof before BDC has been repaid in full, save and except for payment of the SR&ED Tax Credit and regular scheduled interest payments (subject to Article 7):

- 2.1.1 the BDC Security and the Bank Security are hereby postponed and subordinated to the security constituted by the PVL Security with respect to the SR&ED Tax Credit and the GeoDigital Position solely, to the extent of the Borrower's indebtedness to PVL from time to time, together with all accrued interest thereon and all costs, charges and expenses incurred by PVL in connection therewith;
- 2.1.2 Other than the PVL Security with respect to the SR&ED Tax Credit and the GeoDigital Position, the PVL Debt and PVL Security shall in all other respects be fully subordinate to the Bank Debt and the Subordinated Debt, and the Bank Security and the BDC Security will have priority to the full extent of the Bank Debt and the Subordinated Debt, respectively, over the PVL Debt and the PVL Security in all respects at all times.

2.2 PVL agrees with the Bank and BDC that, at any time, the Borrower may make and the Bank and BDC may accept any payment or prepayment in respect of the Bank Debt and/or the Subordinated Debt respectively; or any part thereof, whether or not any Default has occurred, all in accordance with the Bank Credit and the BDC Offer and Loan Agreement, respectively. Nothing contained in this Article 2 will prevent, limit or restrict the Bank and/or BDC in any manner from exercising all or any of their rights or remedies otherwise permitted under the terms of the Bank Security and the BDC Security in connection with the Bank Debt and the BDC Debt, respectively.

2.3 For greater certainty, the subordination herein provided shall apply to any guarantee granted now or hereafter by any Subsidiary Body Corporate, any Affiliate of the Borrower or any Additional Guarantor to the Lenders.

2.4 Unless otherwise acknowledged in writing by PVL, the subordination provided in this Article 2 does not affect the rights of PVL in any suretyship granted in its favour by any person, related or not to the Borrower, other than the suretyship granted by a Consenting Party a Subsidiary Body Corporate, any affiliate or any Additional Guarantors, nor the rights of PVL in any Security held in connection with such suretyship.

2.5 Subject to the foregoing provisions, the subordinations and postponements provided in this Article 2 shall remain in force for as long as the Borrower has not repaid its indebtedness in full to any of the Lenders, and neither the Bank, BDC, or PVL has cancelled the Bank Credit, the BDC Offer and Loan Agreement, or the PVL Instruments as the case may be, and shall apply in all events and circumstances regardless of:

- 2.5.1 any priority otherwise given by law to the PVL Security in connection with the Borrower Group Assets;
- 2.5.2 the respective dates of execution and registration attachment or perfection of the PVL Security, BDC Security as well as the Bank Security;

- 2.5.3 the date or dates of any advances made or that will be made to the Borrower by the Lenders;
- 2.5.4 the date or dates of any Event of Default;
- 2.5.5 any other cause of priority by any principle of law or any statute, including the *Personal Property Security Act (Ontario)* between the PVL, the Bank and BDC.

2.6 Subject to the provisions of this Agreement, including without limitation, Section 2.1 and all provisions relating to the restrictions imposed on PVL during a Standstill Period, the subordination and postponement herein:

- 2.6.1 shall not prevent PVL from obtaining the principal, interest, fee and accessory payments in accordance with the terms and conditions of the PVL Instruments;
- 2.6.2 shall not prevent PVL from exercising its right under any suretyship held by it with respect to the PVL Debt, other than a suretyship by a Consenting Party, a Subsidiary Body Corporate of the Borrower, Affiliate of the Borrower or any Additional Guarantors;
- 2.6.3 shall not prevent PVL from exercising its right under any Security on the SR&ED Tax Credit and/or the GeoDigital Position;
- 2.6.4 shall not prevent PVL from filing a proof of claim with any trustee in bankruptcy in the case of any (i) bankruptcy or assignment of property by any member of the Borrower Group, (ii) filing by any member of the Borrower Group of a notice of intention or a proposal pursuant to the *Bankruptcy and Insolvency Act* or filing of an arrangement under the *Companies' Creditors Arrangement Act* (R.S.C., c. C-36);
- 2.6.5 shall not prevent PVL from invoking an Event of Default with respect to the PVL Debt nor to exercise its rights and remedies in such circumstances, whether by judicial means or otherwise. On the other hand, the realization of the PVL Security remains subject to the subordination provided by the present Agreement as long as it remains in force.

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2.7 Subject in Section 2.1, if a PVL Event of Default pursuant to the PVL Debt occurs and PVL wishes to call its loans, initiate enforcement proceedings in view of obtaining repayment of same or realizing upon the PVL Security, including without limitation upon the filing of a proof of claim as more particularly described in section 2.5.4. above where a standstill period has not already been triggered, PVL must give a written notice to the Bank informing the Bank of its intention to do so (the "PVL Notice of Intention"). If the Bank does not notify PVL in writing that it avails itself of the provisions regarding the implementation of a Standstill Period, and this within a period of ten (10) Business Days from the receipt of the PVL Notice of Intention, PVL may then realize upon the PVL Security and take any measures deemed useful or necessary to protect its rights with respect to the Borrower.

2.8 The Borrower and PVL hereby covenant and agree to ensure that the shares of Pictorvision Holdings Inc. and Pictorvision Inc. are not sold unless BDC receives the full proceeds (which must be no less than \$2,500,000.00) up to the amount owing to BDC. No other assets of the Borrower may be sold until BDC is repaid including without limitation, the GeoDigital Position.

- 2.5.3 the date or dates of any advances made or that will be made to the Borrower by the Lenders;
- 2.5.4 the date or dates of any Event of Default;
- 2.5.5 any other cause of priority by any principle of law or any statute, including the *Personal Property Security Act* (Ontario) between the PVL, the Bank and BDC.
- 2.6 Subject to the provisions of this Agreement, including without limitation, Section 2.1 and all provisions relating to the restrictions imposed on PVL during a Standstill Period, the subordination and postponement herein:
- 2.6.1 shall not prevent PVL from obtaining the principal, interest, fee and accessory payments in accordance with the terms and conditions of the PVL Instruments;
- 2.6.2 shall not prevent PVL from exercising its right under any suretyship held by it with respect to the PVL Debt, other than a suretyship by a Consenting Party, a Subsidiary Body Corporate of the Borrower, Affiliate of the Borrower or any Additional Guarantors;
- 2.6.3 shall not prevent PVL from exercising its right under any Security on the SR&ED Tax Credit and/or the GeoDigital Position;
- 2.6.4 shall not prevent PVL from filing a proof of claim with any trustee in bankruptcy in the case of any (i) bankruptcy or assignment of property by any member of the Borrower Group, (ii) filing by any member of the Borrower Group of a notice of intention or a proposal pursuant to the *Bankruptcy and Insolvency Act* or filing of an arrangement under the *Companies' Creditors Arrangement Act* (R.S.C., c. C-36);
- 2.6.5 shall not prevent PVL from invoking an Event of Default with respect to the PVL Debt nor to exercise its rights and remedies in such circumstances, whether by judicial means or otherwise. On the other hand, the realization of the PVL Security remains subject to the subordination provided by the present Agreement as long as it remains in force.
- 2.7 Subject to Section 2.1, (if a PVL Event of Default pursuant to the PVL Debt occurs and PVL wishes to call its loans) initiate enforcement proceedings in view of obtaining repayment of same or realizing upon the PVL Security, including without limitation upon the filing of a proof of claim as more particularly described in section 2.6.4. above where a standstill period has not already been triggered, PVL must give a written notice to the Bank informing the Bank of its intention to do so (the "PVL Notice of Intention"). If the Bank does not notify PVL in writing that it avails itself of the provisions regarding the implementation of a Standstill Period, and this within a period of ten (10) Business Days from the receipt of the PVL Notice of Intention, PVL may then realize upon the PVL Security and take any measures deemed useful or necessary to protect its rights with respect to the Borrower.
- 2.8 The Borrower and PVL hereby covenant and agree to ensure that the shares of Pictorvision Holdings Inc. and Pictorvision Inc. are not sold unless BDC receives the full proceeds (which must be no less than \$2,500,000.00) up to the amount owing to BDC. No other assets of the Borrower may be sold until BDC is repaid including without limitation, the GeoDigital Position.


 or


2.9 For greater certainty, the priority of repayment and distribution of Cash Proceeds of Realization set out in Section 10 shall continue in force. In addition, For greater certainty, a PVL Notice of Intention shall constitute an immediate Event of Default entitling the Bank, in its discretion, to implement a One Hundred and Eighty Day (180) Standstill Period, provided it so advises PVL within the time period set out in paragraph 2.7.

3 SUBORDINATION AND POSTPONEMENT BETWEEN BDC AND BANK

3.1 The Subordinated Debt and the BDC Security herein are hereby fully subordinated to the prior repayment in full of the Bank Debt, and the Bank Security will have priority to the full extent of the Bank Debt over the BDC Security and the Subordinated Debt in all respects and at all times, save and except that:

3.1.1 The BDC Security shall rank in priority to the Bank Security in all respects on the Life Insurance Policy in the event that the Bank Security affects the Life Insurance Policy; and,

3.1.2 The Bank Security and the BDC Security shall rank on a pari passu basis without preference or priority to one another in respect of the Intellectual Property as more particularly described herein.

3.2 BDC agrees with the Bank that, at any time, the Borrower may make and the Bank may accept any payment or prepayment in respect of the Bank Debt; or any part thereof, whether or not any Default has occurred, all in accordance with the Bank Loan Documents. Nothing herein contained will prevent, limit or restrict the Bank in any manner from exercising all or any of its rights or remedies otherwise permitted under the terms of the Bank Security in connection with the Bank Debt.

3.3 For greater certainty, the subordination herein provided shall apply to any guarantee granted now or hereafter by any Subsidiary Body Corporate, any Affiliate of the Borrower or any Additional Guarantor to BDC or the Bank.

3.4 Unless otherwise acknowledged in writing by BDC, the subordination herein provided does not affect the rights of BDC in any suretyship granted in its favour by any person, related or not to the Borrower, other than the suretyship granted by a Subsidiary Body Corporate, any affiliate or any Additional Guarantors, nor the rights of BDC in any Security held in connection with such suretyship.

3.5 Subject to the foregoing provisions, the subordinations and postponements herein provided shall remain in force for as long as the Borrower has not repaid its indebtedness in full to either of the Bank and BDC, and neither the Bank or BDC has cancelled the Bank Credit or the BDC Offer and Loan Agreement as the case may be, and shall apply in all events and circumstances regardless of:

3.5.1 any priority otherwise given by law to the BDC Security in connection with the Borrower Group Assets (except for the BDC Security on the Life Insurance Policy and the pari passu ranking of the Intellectual Property as more particularly described herein);

- 3.5.2 the respective dates of execution and registration attachment or perfection of the BDC Security as well as the Bank Security;
 - 3.5.3 the date or dates of any advances made or that will be made to the Borrower by the Bank or BDC;
 - 3.5.4 the date or dates of any Event of Default;
 - 3.5.5 any other cause of priority by any principle of law or any statute, including the Personal Property Security Act between the Bank and BDC.
- 3.6 Subject to the provisions of this Agreement, including without limitation, all provisions relating to the restrictions imposed on BDC during a Standstill Period, the subordination and postponement herein:
- 3.6.1 shall not prevent BDC from obtaining the principal, interest, royalty, fee and accessory payments in accordance with the terms and conditions of the Loan Agreement;
 - 3.6.2 shall not prevent BDC from exercising its right under any suretyship held by it with respect to the Subordinated Debt, other than a suretyship by a Subsidiary Body Corporate of the Borrower, Affiliate of the Borrower or any Additional Guarantors;
 - 3.6.3 shall not prevent BDC from exercising its right under any Security on the Life Insurance Policy;
 - 3.6.4 shall be effective only with respect to the Subordinated Debt, excluding any Purchase Money Obligation incurred by any member of the Borrower Group to BDC, as well as any Purchase Money Security granted to BDC in connection thereto;
 - 3.6.5 shall not prevent BDC from filing a proof of claim with any trustee in bankruptcy in the case of any (i) bankruptcy or assignment of property by any member of the Borrower Group, (ii) filing by any member of the Borrower Group of a notice of intention or a proposal pursuant to the *Bankruptcy and Insolvency Act* or filing of an arrangement under the *Companies' Creditors Arrangement Act* (R.S.C., c. C-36);
 - 3.6.6 shall not prevent BDC from invoking an Event of Default with respect to the Subordinated Debt nor to exercise its rights and remedies in such circumstances, whether by judicial means or otherwise. On the other hand, the realization of the BDC Security remains subject to the subordination provided by the present Agreement as long as it remains in force.
- 3.7 Notwithstanding anything to the contrary contained herein, if a BDC Event of Default pursuant to the Subordinated Debt occurs and BDC wishes to call its loan, initiate enforcement proceedings in view of obtaining repayment of same or realizing upon the BDC Security, including without limitation upon the filing of a proof of claim as more particularly described in section 3.6.5, above where a standstill period has not already been triggered, BDC must give a written notice to the Bank informing the Bank of its intention to do so (the "BDC Notice of Intention"). If the Bank does not notify BDC in writing that it avails itself of the provisions regarding the implementation of a Standstill Period, and this within a period of ten (10) Business Days from the receipt of the BDC Notice of Intention, BDC may then realize upon the BDC Security and take any measures deemed useful or

necessary to protect its rights with respect to the Borrower as if this agreement had not been executed.

3.8 For greater certainty, the priority of repayment and distribution of Cash Proceeds of Realization set out in Section 10 shall continue in force. In addition, and for greater certainty, a BDC Notice of Intention shall constitute an immediate Event of Default entitling the Bank, in its discretion, to implement a One Hundred and Eighty Day (180) Standstill Period, provided it so advises BDC within the time period set out in paragraph 3.7.

3.9 Notwithstanding the foregoing, the Bank consents to the repayment of the Subordinated Debt in full from the proceeds of the PVL Commitment and/or the sale of shares referred to in Section 2.8 of this Agreement on or about June 15, 2013.

4 CONSENT TO PAYMENTS

4.1 Subject to Section 3.9, until such time the Bank Debt is fully repaid as to principal, interest, fees, costs and expenses by any member of the Borrower Group and the Bank Credit has been cancelled and before the coming into force of a Standstill Period, BDC:

- 4.1.1 may receive principal, interest, royalty, fee, cost and expense payments in connection with the Subordinated Debt, in accordance with the terms and conditions of the Loan Agreement, to the extent where, at the date of such payments, the Borrower is not in default under the terms of the Bank Debt and/or does not become in default by reason of these payments;
- 4.1.2 may not receive any prepayment of principal (including cash sweep payments), account management, or bonus payments or any other form of prepayment in connection with the Subordinated Debt, without the prior written consent of the Bank;
- 4.1.3 may keep any payment received from any member of the Borrower Group before receipt of a written notice announcing an Event of Default relating to the Bank Debt (the "Bank Notice of Default"), except for cases provided in subsection 4.3 below.

4.2 Until such time the Bank Debt is fully repaid as to principal, interest, fees, costs and expenses by any member of the Borrower Group and the Bank Credit has been cancelled and before the coming into force of a Standstill Period, PVL:

- 4.2.1 may receive principal, interest, fee, cost and expense payments in connection with the PVL Debt, in accordance with the terms and conditions of the PVL Instruments, to the extent where, at the date of such payments, the Borrower is not in default under the terms of the Bank Debt and/or does not become in default by reason of these payments;
- 4.2.2 may not receive any prepayment of principal or any other form of prepayment in connection with the PVL Debt, without the prior written consent of the Bank;
- 4.2.3 may keep any payment received from any member of the Borrower Group before receipt of a Bank Notice of Default, except for cases provided in subsection 4.3 below; and

4.2.4 notwithstanding the foregoing, until the Subordinated Debt has been repaid in full, PVL may only receive payment of scheduled interest payments on the PVL Debt, in accordance with the terms and conditions of the PVL Instruments.

4.3 Subject to section 3.9, it is agreed that any payment in connection with the Subordinated Debt made to BDC, and/or any payment in connection with the PVL Debt made to PVL, while any member of the Borrower Group is in default pursuant to the provisions of the Bank Debt and after a Bank Notice of Default has been duly delivered to BDC and/or PVL by the Bank or, as the case may be, within thirty (30) days prior to such notice if such payment is the cause or materially contributes to the cause of the Event of Default of any member of the Borrower Group with respect to the Bank Debt, will be deemed, to have been received by BDC and/or PVL acting as mandatary and in trust for the Bank and shall be remitted to the Bank by BDC and/or PVL as soon as possible. It is further agreed that in the case of an Event of Default giving rise to a Standstill Period of ninety (90) days, BDC and/or PVL shall remit all payments of principal (including cash sweep payments, if any), and bonus payments received but will, however, be entitled to keep the interest, royalty and/or fee and accessory payments and stay such payments during the Standstill Period;

4.4 In the case of an Event of Default giving rise to a Standstill Period of one hundred and eighty (180) days, BDC and/or PVL shall remit to the Bank all payments received, including principal, interest, royalty, bonus, account management fee and accessory payments and stay such payments during the Standstill Period.

4.5 If the Event of Default invoked by the Bank under the Bank Debt is cured to the satisfaction of the Bank and the Bank has provided written notice to each of the Borrower, BDC and PVL, the Borrower shall resume its payments relating to the Subordinated Debt and PVL Debt and BDC and PVL may then receive principal, interest, royalty, bonus, fee and accessory payments in connection with the Subordinated Debt and PVL Debt respectively, as well as all of the arrears related to such amounts (excluding, for greater certainty any accelerated amounts), including the interest on the unpaid interest to the extent that such repayment does not put any member of the Borrower Group in default under the terms of the Bank Debt both pre and post payment. BDC and PVL may also demand payment of any such amount required to maintain the same yield as initially anticipated in connection with the Subordinated Debt and the PVL Debt, respectively, and as the case may be, provided that the extent of such payment does not put any member of the Borrower Group in default under the terms of the Bank Debt both pre and post payment.

4.6 The Bank shall advise BDC and PVL as soon as any member of the Borrower Group has remedied the Event of Default invoked by the Bank in order that the payments due to BDC and PVL may resume without further delay.

5 SECURITY HELD BY THE LENDERS

5.1 Each of the Lenders declares and represents that no Security, other than those mentioned in Schedule "D" annexed hereto, guarantees the obligations of each member of the Borrower Group pursuant to the Bank Debt, the Subordinated Debt, and the PVL Debt.

5.2 Unless otherwise acknowledged in writing by BDC and PVL, the rights and remedies of the Bank pursuant to any suretyship held with respect to the Bank Debt, the rights and remedies of BDC pursuant to any suretyship held in relation to the Subordinated Debt, and the rights and remedies of PVL pursuant to any suretyship held in relation to the PVL Debt, other than a suretyship held by a Subsidiary Body Corporate of the Borrower, Affiliate of the Borrower or any additional Guarantor are not subject to the present Agreement.

5.3 Each of BDC, PVL and the Bank shall permit the other parties hereto and their employees, agents and contractors, access at all reasonable times to any property and assets of any member of the Borrower Group upon which it has a prior charge or security interest in accordance with the terms hereof and to permit such other party to remove such property and assets from the premises of any member of the Borrower Group at all reasonable times without interference, provided that such other party shall promptly repair any damage caused to the premises by the removal of any such property or assets.

5.4 The Borrower hereby confirms to and agrees with BDC, PVL, and the Bank that so long as any of the indebtedness of the Borrower Group to BDC, PVL and the Bank remains outstanding, they shall stand possessed of their assets so charged for BDC, PVL, and for the Bank in accordance with their respective interests and priorities as herein set out.

6 MODIFICATIONS TO THE CONDITIONS OF THE BANK DEBT

6.1 Subject to the terms of Subsection 6.2 hereof, the Bank will be entitled to modify the terms and conditions of the Bank Credit set forth in Schedule A annexed hereto without authorization from BDC and PVL. However, these modifications shall not allow the Bank to demand the enforcement of a Standstill Period in case of a Bank Event of Default resulting solely from such modifications, if the modification had not been previously authorized by BDC and PVL in writing or prior to the expiration of a period of six (6) months following the effective date of such modifications.

6.2 However, at all times, BDC's and PVL's authorization will be required in the following cases:

6.2.1 if the Bank wishes amend the margining formula applicable to inventory and accounts receivable financing under the Bank Credit, as established on the date hereof;

6.2.2 at all times, if the Bank wishes to increase the available credit offered to the Borrower under the Bank Credit provided however that the Bank may (i) increase the limit of available amounts provided for in the Bank Credit to no more than one hundred and fifteen percent (115%) of the amount already authorized; or (ii) decrease the limit of available amounts provided for in the Bank Credit by no more than fifteen percent (15%) of the amount already authorized; where the authorized limit under the Bank Credit currently consists as of the date hereof of a Seven Hundred Thousand Dollars (\$700,000.00) operating line and a \$150,000 VISA facility;

- 6.2.3 the financing of the acquisition of new equipment in excess of seventy-five percent (75%) of the value of such equipment.
- 6.3 Where BDC and PVL authorization is required pursuant to this section of this Agreement, BDC and PVL shall not unreasonably withhold their authorization in the case of any request made by the Bank with respect to the foregoing modifications.
- 6.4 If an authorization required hereunder is not granted in writing by BDC and/or PVL within a period of fifteen (15) Business Days from the written request of the Bank, this authorization is deemed to have been refused and any Bank Event of Default resulting solely from such modifications, if they had not been previously authorized by BDC and/or PVL in writing shall not allow the Bank to demand the enforcement of a Standstill Period prior to the expiration of a period of six (6) months following the effective date of such modification. Notwithstanding, the forgoing and for greater certainty, if an authorization required hereunder is not granted in writing by BDC and/or PVL, but the Bank determines to implement the modifications in connection with which it was required to seek authorization, there shall be no prohibition on the Bank instituting a Standstill Period, upon a breach by the Borrower of the terms and conditions of the Bank Credit as they existed prior to implementation of such modifications, provided however that such modifications did not contribute in any way to the Borrower's breach of such terms and conditions.
- 6.5 In the case of an authorized increase of the credit limit, any new Security that may be required by the Bank shall be subject to this Agreement.

7 STANDSTILL PERIOD

- 7.1 Subject to Section 3.9 (in which case no Standstill Period shall be imposed on BDC), if an Event of Default occurs with respect to the Bank Debt, the Bank may subject to the terms and conditions of this Agreement, but without any obligation to do so, notify BDC and PVL of the occurrence of such Event of Default and impose a Standstill Period on BDC and PVL with respect to the exercise of their rights regarding the Subordinated Debt and the PVL Debt respectively.
- 7.2 In order for the Bank to exercise its right to impose a Standstill Period, the Bank shall nonetheless give a written notice to BDC and PVL advising of the Event of Default of the Borrower under the Bank Debt and indicating the nature of the default(s). Upon receipt of the Bank Notice of Default, BDC and PVL shall stay all proceedings engaged in view of realizing upon the BDC Security and the PVL Security respectively or, as the case may be, not initiate any proceedings against the Borrower in order to call its loan or realize upon the BDC Security and the PVL Security respectively, unless the Bank has itself initiated such proceedings with respect to the Bank Credit and/or the Bank Security, and a period of ten (10) days has elapsed from the date the Bank initiated such proceedings, such stay or non-initiation of proceedings being limited to the Standstill Period and this, for the period(s) of time referred to below in subsections 7.3 and 7.4.
- 7.3 If the Event of Default is limited to only non performance on the part of the Borrower or any other member of the Borrower Group, as applicable relating to the various financial ratios and such other covenants set forth in Section 1 of Schedules "E" annexed hereto, subject to the

modifications that may be made pursuant to the provisions of section 6, the Standstill Period will be limited to ninety (90) days from the date of receipt of the Bank Notice of Default, during which period BDC and PVL:

- 7.3.1 may not receive principal payments (including cash sweep payments) or bonus payments in connection with the Subordinated Debt and the PVL Debt respectively, as the case may be;
- 7.3.2 will only be allowed to receive the interest, royalty, fee and accessory payments, as the case may be;
- 7.3.3 may not prohibit the Borrower or the Bank from using the assets subject to the BDC Security and the PVL Security, provided such use is not beyond that which is commercially reasonable;

7.4 If the Event of Default involves a default set forth in Section 2 of Schedule "E" annexed hereto, the Standstill Period will be limited to one hundred and eighty (180) days from the date of receipt of the Bank Notice of Default, period during which BDC and PVL:

- 7.4.1 will stay all the payments due by the Borrower in principal (including cash sweep payments), interest, royalties, bonus, fees, accessories or any other form of payment for the said period; and,
- 7.4.2 may not prohibit the Borrower or the Bank from using the assets subject to the BDC Security and the PVL Security; provided such use is not beyond that which is commercially reasonable;

7.5 During any consecutive twelve (12) month period, the Bank may not request more than 2 (two) Standstill Periods for a period of time exceeding One Hundred and Eighty (180) days if the Event of Default is related to a failure to meet the financial ratios and other covenants set forth in Section 1 of Schedule "E" annexed hereto, or one hundred and eighty (180) days for any other Event of Default. Moreover, whatever the nature of the Event of Default, the total cumulative number of days of Standstill Periods during any consecutive twelve (12) month period may not exceed one hundred and eighty (180) days and any one day of a Standstill Period of ninety (90) days shall reduce the time allocated to a Standstill Period of one hundred eighty (180) days by one day accordingly as applicable.

7.6 The Standstill Period will terminate at the expiration of the term fixed for such Standstill Period. If the Borrower or any member of the Borrower Group has not remedied the Event(s) of Default invoked by the Bank before the expiration of the Standstill Period, BDC and PVL may then start realizing upon their own Security and take any useful or necessary measures to protect their rights with respect to the Borrower, including the disposition of the Borrower Group Assets subject to the BDC Security and the PVL Security respectively.

7.7 In the event of the delivery of a BDC Notice of Intention and/or a PVL Notice of Intention, the Bank may, but without any obligation to do so, remedy the default of the Borrower relating to the Subordinated Debt and/or the PVL Debt, in which case, any payment made by the Bank will be considered as an advance of funds under the Bank Credit.

8 RIGHTS OF BDC AND PVL DURING ANY SUBSEQUENT STANDSTILL PERIOD

8.1 If, after having taken advantage for the first time of one or more Standstill Periods of a maximum cumulative duration of one hundred and eighty (180) days, as the case may be, the Bank had to once again avail itself of its rights to require a new Standstill Period (i.e. after the expiration of a twelve (12) month period since the delivery of the Bank Notice of Default having required the enforcement of a first Standstill Period) by reason of a new Event of Default, the Bank acknowledges that BDC and/or PVL may require any member of the Borrower Group, as applicable to consent to the following requirements, without such request constitutes an Event of Default pursuant to the Bank Credit, and each member of the Borrower Group undertakes to do all the necessary acts in order for these conditions to be fulfilled within a delay of thirty (30) days of such demand from BDC and/or PVL, to that effect:

- 8.1.1 to have their own appointed representative to attend, as an observer(s), to all meetings of the board of directors of any member of the Borrower Group, during which meetings such observer shall be entitled to participate in discussions but not be entitled to vote;
- 8.1.2 to hold a meeting of the board of directors each month, at a place and date acceptable to BDC and/or PVL;
- 8.1.3 to have their own appointed representative to attend, as an observer, to all general or special shareholders' meetings of any Borrower Group Member, during which meetings such observer shall be entitled to participate in discussions but not be entitled to vote;
- 8.1.4 to receive a copy of any notice of meeting to directors' or shareholders' meetings, as the case may be, at least five (5) days in advance, as well as all the relevant documentation delivered to the directors and/or shareholders of any Borrower Group Member;
- 8.1.5 to receive a copy of the minutes of the directors' and shareholders' meetings, within five (5) business days of such meeting, even if the observer appointed by BDC and/or PVL was not present at the meeting;
- 8.1.6 to require the resignation of a director of any Borrower Group Member and its replacement by a person appointed by BDC and/or PVL, as the case may be;
- 8.1.7 to request an increase in the interest rate payable on the advances made according to the Loan Agreement, by way of an increase of the spread between BDC's prime rate(s) and the actual interest rate(s) payable by any Borrower Group Member in accordance with the Loan Agreement provided that such increase will not result in a Bank Event of Default as a result of such increase;
- 8.1.8 to request a reasonable increase in the monthly account management fees payable by any Borrower Group Member;
- 8.1.9 to obtain from the shareholders of any Borrower Group Member such further Security with delivery of all the voting shares held by such shareholders in the capital of the Borrower, with consent of Bank during an Initial Standstill Period provided no consent of the Bank shall be required during subsequent Standstill Periods.

9 AMENDMENT OF BDC LOAN AGREEMENT, BDC LOAN DOCUMENTS, AND PVL INSTRUMENTS

9.1 Subject to article 8, without the prior written consent of the Bank, BDC and PVL agree that they will not be entitled to: (i) cause to be more onerous or add any financial covenants of the

Borrower or add any additional Events of Default (as defined in the Loan Agreement and or the PVL Instruments) to the Loan Agreement or the PVL Instruments (including for greater certainty, the Offer Letter)(copies of which are annexed hereto as Schedule "B"); (ii) shorten any scheduled repayment date or shorten the final maturity date of any of the Subordinated Debt or PVL Debt (other than pursuant to the making of a demand) or (iii) increase any interest rate applicable to the Subordinated Debt or PVL Debt (provided for greater certainty, that this shall not restrict any increase in any interest rate applicable only following the occurrence of any Event of Default under the Loan Documents or PVL Instruments as in effect on the day hereof, and provided further, that any such increased interest arising following occurrence of an Event of Default shall accrue until all of the Bank Debt shall have been indefeasibly satisfied in full and all commitments to make advances under the Bank Credit have been terminated).

10 APPLICATION OF CASH PROCEEDS OF REALIZATION

- 10.1 All Cash Proceeds of Realization, other than Cash Proceeds of Realization directly or indirectly derived from or relating to the Life Insurance Policy, the Intellectual Property, the SR&ED Tax Credit and the GeoDigital Position, or subject to payment of any claims or liens ranking in priority to the Bank Debt and Bank Security, will be applied and distributed, and the Security will be deemed to have the relative priorities which would result in such Cash Proceeds of Realization being applied and distributed, as follows:
- 10.1.1 firstly, to the payment of all reasonable costs and expenses incurred by the Bank in the exercise of all or any of the powers granted to it under the Bank Credit and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under the Bank Credit;
 - 10.1.2 secondly, to the payment or prepayment in full of the Bank Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against the Bank Debt which have not then matured) in such manner as the Bank may see fit;
 - 10.1.3 thirdly, to the payment of all reasonable costs and expenses incurred by BDC in the exercise of all or any of the powers granted to it under the BDC Offer, the Loan Agreement or the BDC Security and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under BDC Security provided that BDC is permitted to exercise such powers and to appoint a Receiver pursuant to this Agreement;
 - 10.1.4 fourthly, to the payment or prepayment in full of the Subordinated Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against Subordinated Debt which have not then matured);
 - 10.1.5 fifthly, to the payment of all reasonable costs and expenses incurred by PVL in the exercise of all or any of the powers granted to it under the PVL Instruments or the PVL Security and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under PVL Security provided that PVL is permitted to exercise such powers and to appoint a Receiver pursuant to this Agreement;

- 10.1.6 sixthly, to the payment or prepayment in full of the PVL Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against PVL Debt which have not then matured); and
 - 10.1.7 the balance, if any, in accordance with applicable law.
- 10.2 All Cash Proceeds of Realization directly or indirectly derived from or relating to any and all Life Insurance Policy will be applied and distributed, and the Security will be deemed to have the relative priorities which would result in such Cash Proceeds of Realization being applied and distributed, as follows:
- 10.2.1 firstly, to the payment of all reasonable costs and expenses incurred by BDC in the exercise of all or any of the powers granted to it under the BDC Security and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under the BDC Security;
 - 10.2.2 secondly, to the payment or prepayment in full of the Subordinated Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against Subordinated Debt which have not then matured); and
 - 10.2.3 the balance, if any, in accordance with applicable law.
- 10.3 The Cash Proceeds of Realization of the Intellectual Property will be applied and distributed, and the Security will be deemed to have the relative priorities which would result in such Cash Proceeds of Realization being applied and distributed, as follows, after the application and distribution of the Cash Proceeds of Realization of all of the other Borrower Group Assets:
- 10.3.1 firstly, to the payment of all reasonable costs and expenses incurred by the Bank and BDC in the exercise of all or any of the powers granted to it under the Bank Credit on the one hand and the BDC Offer or Loan Agreement on the other hand and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under the Bank Credit on the one hand and the BDC Offer and the Loan Agreement on the other hand, on a pari passu basis such that if the Cash Proceeds of Realization are not sufficient to retire all such reasonable costs and expenses then each of the Bank and BDC shall be reimbursed a pro rata amount of the costs and expenses incurred by such party as are in proportion to the total costs and expenses incurred by both parties in the aggregate; and,
 - 10.3.2 secondly, to the payment or prepayment in full of the Bank Debt and the Subordinated Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against the Bank Debt and the Subordinated Debt which have not then matured) in such manner as the Bank and BDC may see fit on a pari passu basis such that if the Cash Proceeds of Realization are not sufficient to retire all of the Bank Debt and the Subordinated Debt, then each of the Bank and BDC shall be reimbursed a pro rata amount of the Bank Debt and the Subordinated Debt, as the case may be, as such debt is in proportion to the total of the Bank Debt and the Subordinated Debt in the aggregate; and,
 - 10.3.3 the balance, if any in accordance with applicable law.

10.4 Subject to Section 2.1, all Cash Proceeds of Realization directly or indirectly derived from or relating to the SR&ED Tax Credit and/or the GeoDigital Position will be applied and distributed, and the Security will be deemed to have the relative priorities which would result in such Cash Proceeds of Realization being applied and distributed, as follows:

- 10.4.1 firstly, to the payment of all reasonable costs and expenses incurred by PVL in the exercise of all or any of the powers granted to it under the PVL Security and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under the PVL Security;
 - 10.4.2 secondly, to the payment or prepayment in full of the PVL Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against the PVL Debt which have not then matured);
 - 10.4.3 thirdly, to the payment of all reasonable costs and expenses incurred by the Bank in the exercise of all or any of the powers granted to it under the Bank Credit or the Bank Security, and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under the Bank Credit or Bank Security;
 - 10.4.4 fourthly, to the payment or prepayment in full of the Bank Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against Bank Debt which have not then matured);
 - 10.4.5 fifthly, to the payment of all reasonable costs and expenses incurred by BDC in the exercise of all or any of the powers granted to it under the BDC Offer, the Loan Agreement or the BDC Security and in payment of all of the remuneration of any Receiver and all reasonable costs incurred by such Receiver in the exercise of all or any powers granted to it under BDC Security provided that BDC is permitted to exercise such powers and to appoint a Receiver pursuant to this Agreement;
 - 10.4.6 sixthly, to the payment or prepayment in full of the Subordinated Debt (including holding such Cash Proceeds of Realization as cash collateral to be applied against Subordinated Debt which have not then matured); and
 - 10.4.7 the balance, if any, in accordance with applicable law.
- 10.5 Each of BDC, the Bank and PVL acknowledges that the foregoing method of application of Cash Proceeds of Realization may be subject to the claims, if any, of prior secured creditors of the Borrower; however, this acknowledgement is not intended to, and shall not, constitute a subordination by either BDC, the Bank or PVL in favour of any other creditor of the Borrower. For the purposes of this Agreement, the Bank Debt will not be considered to have been paid in full unless the Bank has received payment in cash of the full amount of all Bank Debt, the Subordinated Debt will not be considered to have been paid in full unless BDC has received payment in cash of the full amount of all Subordinated Debt, and the PVL Debt will not be considered to have been paid in full unless PVL has received payment in cash of the full amount of all PVL Debt.

11 DURATION

11.1 The present Agreement shall remain in force until the first of the following dates:

- 11.1.1 the date of cancellation of the Agreement following the written consent of all the parties hereto;
- 11.1.2 the date on which any and all amounts due with respect to the Bank Debt will have been completely repaid and the Bank Credit has been cancelled to the entire satisfaction of the Bank and no further obligation remains with the Bank to advance funds to the Borrower;
- 11.1.3 the date on which any and all amounts due with respect to the Subordinated Debt will have been completely repaid and the Bank Credit has been cancelled to the entire satisfaction of BDC and PVL.
- 11.1.4 the date on which any and all amounts due with respect to the PVL Debt will have been completely repaid and any documents evidencing the PVL Instruments have been cancelled to the entire satisfaction of the Bank.

12 DOCUMENTATION

- 12.1 Each Lender shall, upon request of the other Lender and no later than fifteen (15) days of such request, sign any deed, agreement or other document, and shall do any act deemed useful or necessary in order to give effect to the Agreement hereof, including, as the case may be, assigning the priority of rank with respect to their respective Security.

13 DEFAULT AND NOTICE OF DEFAULT

- 13.1 The Lenders agree to act reasonably when exercising their respective rights and remedies under the terms of the Subordinated Debt, the Bank Debt and the PVL Debt.
- 13.2 The Lenders also agree to provide each other with copies of any letter or any notice transmitted in writing by one or the other to the Borrower relating to any Event of Default under the terms of the Subordinated Debt, the Bank Debt, or the PVL Debt as the case may be but any failure to provide such notice shall not invalidate the agreements made herein.

14 NOTICE

- 14.1 All notices or requests provided for in this Agreement shall be transmitted in writing to the party to which it is sent or given. Any notice or request is validly transmitted by its delivery to its recipient, either: personally (in which case, the delivery shall be accepted); or by registered and prepaid mail; or by facsimile, telex, cable or telegram; or served to the addresses hereinafter mentioned:

For BDC:

BDC Capital Inc., a wholly-owned subsidiary of Business Development Bank of Canada
380 Wellington Street, London, Ontario,
N6A 5B5

To the attention of Jeff Hill

For the Bank:

Royal Bank of Canada
30 Duke Street West, 8th Floor
Kitchener, Ontario
N2H 3W5

To the attention of Account Manager - PV Labs

For PVL:

1685 Main Street West, Suite 25,
Hamilton, Ontario,
L8S 1G5

To the Attention: Robert Manherz, President

For the Borrower:

400A - 175 Longwood Road
Hamilton, Ontario
L8P 0A1

Any notice given or any request made as provided for hereinabove is deemed to have been received upon its delivery, if personally delivered, or at the time of its service, if served, or on the third (3rd) Business Day following its mailing, if sent by mail, or on the Business Day following its transmittal, if transmitted by fax, telex, cable or telegram, as the case may be. However, if the mail service is interrupted by a strike, a slowdown, an act of God or any other cause, the party sending the notice or the request shall use one of the services that is not interrupted or shall deliver such notice or request in a manner that such notice or request is received as soon as possible. Each party may advise the other parties of any change of address in the manner hereinabove mentioned for the purposes of this Agreement.

15 MISCELLANEOUS

- 15.1 **Termination of Prior Agreements.** All prior agreements between some or all of the parties hereto regarding the priority of Security, whether written or oral, are hereby terminated and substituted by this Agreement.
- 15.2 **Monies deposited by the Borrower with Bank.** With the exception of monies deposited in any accounts designated as trust accounts by the Borrower for the benefit of BDC or PVL, BDC and PVL shall not be entitled, notwithstanding anything to the contrary in this Agreement, to make a claim against any monies which are deposited in or disbursed from any account of the

Borrower maintained with the Bank, except for monies deposited therein after the time the Bank has received written notice from BDC of a default under the BDC Offer or the Loan Agreement.

- 15.3 **Successors and Assigns.** The terms and conditions herein shall apply and enure to the benefit of the successors and assigns of BDC, the Bank and PVL. Any assignee of the rights of the Bank according to the Bank Debt shall benefit from the rights of the Bank in accordance with the terms hereof, any assignee of the rights of BDC pursuant to the Subordinated Debt shall assume in writing the obligations of BDC described herein and BDC agrees to obtain such assumption from such assignee, and any assignee of the rights of PVL pursuant to the PVL Debt shall assume in writing the obligations of PVL described herein and PVL agrees to obtain such assumption from such assignee.
- 15.4 **Continuing Agreement.** This Agreement shall constitute a continuing agreement, even though at times the Borrower (as applicable) may not be indebted to a Lender under the applicable Loan Documents and each Lender may continue, without notice to the other Lender, to lend money, extend credit and make other financial accommodations to or for the account of the Borrower (as applicable) on the faith hereof.
- 15.5 **Waivers and Amendments.** None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Lenders. No Lender will by any act or delay, be deemed to have waived any right or remedy hereunder or to have acquiesced in any default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder will preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any Lender of any right or remedy hereunder on any one occasion will not be construed as a bar to any right or remedy which such Lender would otherwise have on any future occasion.
- 15.6 **Governing Laws.** The provisions hereof shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- 15.7 **The Agreement hereof may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original, and all of which taken together shall constitute one and the same agreement. Execution of this Agreement may be made by each party by signing a copy of the Agreement and sending such signature by facsimile or otherwise.**
- 15.8 **The Consenting Parties confirm their consent to, and approval of, the terms and conditions of this Agreement.**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the following manner:

BDC this 22nd day of ~~January~~, 2013.

February
10

Borrower maintained with the Bank, except for monies deposited therein after the time the Bank has received written notice from BDC of a default under the BDC Offer or the Loan Agreement.

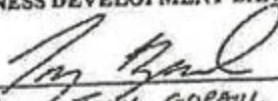
- 15.3 **Successors and Assigns.** The terms and conditions herein shall apply and enure to the benefit of the successors and assigns of BDC, the Bank and PVL. Any assignee of the rights of the Bank according to the Bank Debt shall benefit from the rights of the Bank in accordance with the terms hereof, any assignee of the rights of BDC pursuant to the Subordinated Debt shall assume in writing the obligations of BDC described herein and BDC agrees to obtain such assumption from such assignee, and any assignee of the rights of PVL pursuant to the PVL Debt shall assume in writing the obligations of PVL described herein and PVL agrees to obtain such assumption from such assignee.
- 15.4 **Continuing Agreement.** This Agreement shall constitute a continuing agreement, even though at times the Borrower (as applicable) may not be indebted to a Lender under the applicable Loan Documents and each Lender may continue, without notice to the other Lender, to lend money, extend credit and make other financial accommodations to or for the account of the Borrower (as applicable) on the faith hereof.
- 15.5 **Waivers and Amendments.** None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Lenders. No Lender will by any act or delay, be deemed to have waived any right or remedy hereunder or to have acquiesced in any default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder will preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any Lender of any right or remedy hereunder on any one occasion will not be construed as a bar to any right or remedy which such Lender would otherwise have on any future occasion.
- 15.6 **Governing Laws.** The provisions hereof shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- 15.7 **The Agreement hereof may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original, and all of which taken together shall constitute one and the same agreement. Execution of this Agreement may be made by each party by signing a copy of the Agreement and sending such signature by facsimile or otherwise.**
- 15.8 **The Consenting Parties confirm their consent to, and approval of, the terms and conditions of this Agreement.**

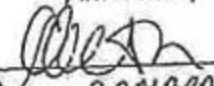
IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the following manner:

BDC this 22nd day of ~~January~~, 2013.

February
13


BDC CAPITAL INC., a wholly-owned subsidiary of
BUSINESS DEVELOPMENT BANK OF CANADA

Per: 
Name: TONY GOPAUL
Title: MANAGER, SUBORDINATE FINANCE

Per: 
Name: C. GALBRAITH
Title: MANAGER, SUBORDINATE FINANCE
I/We have authority to bind the Bank.

The Bank this 22 day of ^{February} January, 2013.

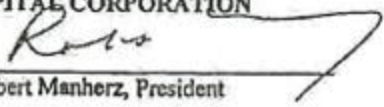
ROYAL BANK OF CANADA

Per: 
Name: JASON READ
Title: COMMERCIAL ACCOUNT MANAGER

Per: _____
Name: _____
Title: _____
I/We have authority to bind the Bank.

PVL this ____ day of January, 2013.

PVL CAPITAL CORPORATION

Per: 
Robert Manherz, President

I have the authority to bind the Corporation.

The Consenting Parties this ____ day of January, 2013.

PV LABS (USA) INC.

Per: _____
Name: TOM HALLMAN, EVP

I have the authority to bind the Corporation.

PICTORVISION HOLDINGS INC.

Per: Mark Chamberlain
Name: MARK CHAMBERLAIN, PRESIDENT

I have the authority to bind the Corporation.

PICTORVISION INC.

Per: _____
Name: TOM HALLMAN, PRESIDENT

I have the authority to bind the Corporation.

TRIVARIS LTD.

Per: Mark Chamberlain
Name: MARK CHAMBERLAIN, PRESIDENT

I have the authority to bind the Corporation.

Stanley L. Howard
Witness:

Mark Chamberlain
MARK CHAMBERLAIN

The Consenting Parties this ____ day of January, 2013.

PV LABS (USA) INC.

Per: Tom Hallman
Name: **TOM HALLMAN, EVP**

I have the authority to bind the Corporation.

PICTORVISION HOLDINGS INC.

Per: _____
Name: _____

I have the authority to bind the Corporation.

PICTORVISION INC.

Per: Tom Hallman
Name: **TOM HALLMAN, PRESIDENT**

I have the authority to bind the Corporation.

TRIVARIS LTD.

Per: _____
Name: _____

I have the authority to bind the Corporation.

Witness: _____

MARK CHAMBERLAIN

Schedule "A"

Letter Agreement of Bank dated March 8, 2012

Schedule "B"

Offer Letter/Loan Agreement of BDC

Dated _____, and April 25th, 2011, respectively

Schedule "C"

**Commitment of PVL/Loan Agreement of PVL/Promissory Note
Dated January 18, 2013, January 30, 2013 and January 30, 2013, respectively**

SCHEDULE "D"

1. LIST OF LIFE INSURANCE POLICIES IN FAVOUR OF BDC

Sun Life Assurance Company of Canada Life Insurance Policy LI-J304 215-0 on the life of Mark Jeffrey Chamberlain in the amount of \$2,500,000.

2. LIST OF THE BANK SECURITY

The Bank declares that as of the date of these presents, the Bank Security held is the following:

1. General Security Agreement from the Borrower.

3. LIST OF THE BDC SECURITY

BDC declares that at the date of these presents, the Security held is the following:

1. General Security Agreement from the Borrower.
2. Conditional Guarantee of Mark Chamberlain for the full amount of the investment.
3. Assignment of the life insurance policy on the life of Mark Chamberlain in the amount of \$2,500,000.
4. Full Corporate Guarantee of PV Labs (USA), Inc. for the full amount of the investment supported by a GSA.
5. Full Corporate Guarantee of Pictorvision Holdings Inc. for the full amount of the investment supported by a GSA.
6. Full Corporate Guarantee of Pictorvision Inc. for the full amount of the investment supported by a GSA.
7. Postponement of \$658,400 due to Trivaris Ltd.

4. LIST OF THE PVL SECURITY

PVL declares that as of the date of these presents, the Bank Security held is the following:

1. General Security Agreement from the Borrower.
2. Specific Security Agreement from the Borrower against the Intellectual Property of the Borrower.
3. Assignment of the Borrower's interest in the tax credit payable to it by the Canada Revenue Agency under the "Scientific Research and Experimental Development Tax Incentive Program" for the Borrower's 2012 taxation year.
4. A Share Pledge Agreement, pledging the Pledged Shares (as defined therein) of GeoDigital International Inc.
5. Full Corporate Guarantee of PV Labs (USA), Inc. for the full amount of the investment.

6. Full Corporate Guarantee of Pictorvision Holdings Inc. for the full amount of the investment.
7. Full Corporate Guarantee of Pictorvision Inc. for the full amount of the investment.

SCHEDULE "F"

CONDITIONS PRECEDENT FOR A STANDSTILL PERIOD

1. NINETY (90) DAY STANDSTILL PERIOD

The Bank may avail itself of a ninety (90) day Standstill Period in the case of the following Events of Default:

- (a) if the Borrower's ratio of Current Assets to Current Liabilities is less than 1.25:1 measured quarterly;
- (b) if the Borrower's ratio of Total Liabilities to Tangible Net Worth is greater than 2.50:1, measured quarterly;

2. ONE HUNDRED AND EIGHTY (180) DAY STANDSTILL PERIOD

The Bank may avail itself of a one hundred and eighty (180) day Standstill Period in the case of the following Events of Default:

- (a) the interest is not paid when due pursuant to the Bank Loan Documents;
- (b) the principal repayments are not made;
- (c) the Borrower exceeds its authorized line of credit by more than fifteen percent (15%);
- (d) BDC delivers a BDC Notice of Intention to each of the Borrower and the Bank.

For the purposes hereof, the following expressions mean:

"Current Assets" means, at any time, those assets ordinarily realizable within one year from the date of determination or within the normal operating cycle, where such cycle is longer than a year;

"Current Liabilities" means, at any time, amounts payable within one year from the date of determination or within the normal operating cycle, where such cycle is longer than a year (the operating cycle must correspond with that used for current assets);

"Equity" means the total of share capital, (excluding preferred shares redeemable within one year) contributed surplus and retained earnings plus Postponed Debt;

"Postponed Debt" means indebtedness that is fully postponed and subordinated, both as to principal and interest, on terms satisfactory to the Bank, to the obligations owing to the Bank hereunder;

"Tangible Net Worth" means the total of Equity less intangibles, deferred charges, leasehold improvements, deferred tax credits and unsecured advances to related parties. For the purpose hereof, intangibles are assets lacking physical substance;

"Total Liabilities" means all liabilities, exclusive of deferred tax liabilities and Postponed Debt;

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at TORONTO

MOTION RECORD

CHAITONS LLP

Barristers and Solicitors
5000 Yonge Street, 10th Floor
Toronto, ON M2N 7E9

George Benchetrit

LSUC Registration No. 34163H
Tel: (416) 218-1141
Fax: (416) 218-1841

Lawyers for PV Labs Inc.