UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 12, 2023

LUCY SCIENTIFIC DISCOVERY, INC.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	**001-41616**	**Not Applicable**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

301-1321 Blanshard Street
Victoria, British Columbia, Canada V8W 086
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(778) 410-5195**

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to 12(b) of the Act:

Title of class	Trading symbol	Name of exchange on which registered
Common Shares, no par value	LSDI	NASDAQ Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 1.01. Entry Into a Material Definitive Agreement.

On December 12, 2023, Lucy Scientific Discovery, Inc. (the "Company") entered into a securities purchase agreement (the "Purchase Agreement") with three (3) accredited investors (collectively, the "Investors"), pursuant to which the Investors may lend up to a total of $1.8 million to the Company. The Company received a total of $850,000, before expenses, at the closing of the first tranche of the financing (the "First Tranche").

Pursuant to the Purchase Agreement, the Company sold to the Investors senior secured convertible promissory notes (each individually, a "Note" and collectively, the "Notes") in an aggregate principal amount of up to $2 million, convertible into the Company's common shares (the "Common Shares").

The Notes carry an original issue discount of up to a total of $200,000 which is included in the up to $2 million principal balance of the Note.

The Purchase Agreement contains customary representations, warranties and covenants of the Company and the Investors. The First Tranche's original issue discount, added to the principal amount owed by the Company, was a total of approximately $94,500, for a total principal balance of approximately $944,500. Pursuant to the Purchase Agreement, in connection with the payment of the First Tranche, the Investors received warrants to purchase up to an aggregate of 1.5 million Common Shares (each, a "Warrant" and collectively, the "Warrants"). The Warrants are exercisable for Common Shares of the Company (the "Warrant Shares") at an exercise price of $0.25 (the "Exercise Price"). If fully exercised for cash, the Company will receive $375,000 from the exercise of the Warrants.

The payment of further consideration by the Investors to the Company, pursuant to the Purchase Agreement and the Notes (up to $950,000 before expenses), is at the Investors' sole discretion (the "Subsequent Tranches"). The obligations of the Company under the Notes are secured by all of the Company's assets pursuant to the terms of the security and pledge agreements by and between the Company and each Investor (the "Security and Pledge Agreement").

Secured Convertible Promissory Note

The Notes are repayable from the date of the First Tranche, or Subsequent Tranches, if applicable, until 12 months thereafter (the "Maturity Date") and accrue interest at a rate of 10.0% per annum. The Company may prepay the Notes at any time prior to the Maturity Date, upon 30 days' notice to the Investors in an amount equal to 110% multiplied by the sum of (i) the outstanding principal amount, (ii) all accrued and unpaid interest, (iii) all accrued interest through the remainder of the Note term, and (iv) any other amounts due under the Note. The Company is required to make interest payments in a total amount of approximately $8,000 per month to the Investors, starting in January, until the principal amount is due in December 2024.

The Notes are convertible (in whole or in part) at any time into the number of Common Shares equal to the sum of (1) the principal amount of the Note to be converted in such conversion; plus (2) at the Investor's option, accrued and unpaid interest, provided, however, that at the option of Investor, the accrued and unpaid interest can be converted prior to any other amounts under the Note, if any, on such principal amount at the interest rates provided in the Note to the Conversion Date (as defined in the Notes); plus (3) at the Investor's option, the lesser of the rate of 24% per annum or the maximum legal amount permitted by law (the "Default Interest"), if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2); plus (4) the Investor's expenses relating to a conversion, including but not limited to amounts paid by Investor on the Company's transfer agent account; and (5) at the Investor's option, any amounts owed to the Investor pursuant to Sections 2.3 and 2.4(g) of the Notes.

On the earliest date that the Common Shares underlying the Note would be eligible to be unrestricted in the hands of the Investors (either pursuant to registration, Rule 144, or any other applicable exemption from registration) (such date referred to as the "Equity Interest Due Date"), the Company shall issue to the Investors a number of Common Shares so that the value of such shares is equal to a total of $450,000 (the "Equity Interest Value") based on the lowest daily VWAP (as defined in the Note) during the twenty (20) trading days preceding the date of issuance (the "Equity Interest"). The Equity Interest Value shall be pro-rated based on the portion of the total of the $1.8 million advanced prior to the Equity Interest Due Date, provided however, that the Equity Interest Value shall be at least a total of $270,000 on the Equity Interest Due Date with the remainder due upon advance of each Subsequent Tranche subsequent to the Equity Interest Date.

The Notes provide for certain covenants, whereby the Company is restricted, unless the Investors consent, in certain activities, including, variable rate transactions and Common Share repurchases. So long as any obligations of the Company under the Notes are outstanding, upon an issuance of (or announcement of intent to effect an issuance of) any security or amendment to any security originally issued prior to December 12, 2023, by the Company with any term the Investors reasonably believe is more favorable to the holder of such security than to the Investors, or with a term in favor of the holder of such security that the Investors reasonably believe was not similarly provided to Investors, then (i) the Company must notify the Investors of such additional favorable term within 3 business days of the issuance and/or amendment of the respective security and (ii) such term, at Investors' option, shall become a part of the transaction documents with the Investors.

Subject to some exceptions, the Notes require the Company to pay to the Investors on an accelerated basis, all amounts owed pursuant to the Notes from the net proceeds of: (a) any future financings, whether debt or equity, or any other financing proceeds such as cash advances, royalties or earn-out payments or (b) the sale of any assets or securities or the receipt in cash of any tax refunds, the sale of any tax credits, or collections pursuant to any settlement or judgement.

The Notes set forth certain standard events of default (such event, an "Event of Default"), subject to certain cure periods. Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), (i) interest shall accrue at the Default Interest rate (as defined in the Notes); (ii) the Notes shall become immediately due and payable and the Company shall pay to the Investors an amount equal to the sum of the principal amount then outstanding plus accrued and unpaid interest through the date of the Event of Default, plus unaccrued interest through the remainder of the term of the Notes, together with all costs, including, without limitation, legal fees and expenses of collection and Default Interest through the date of full repayment; and (iii) a liquidated damages charge equal to 25% of the outstanding balance due under the Notes will be assessed and will become immediately due and payable to the Investors.

Description of the Warrants

The Warrants are exercisable until December 12, 2028. If at any time after June 12, 2024, the market price of one Common Share is greater than the Exercise Price and the Warrant Shares are not registered under an effective non-stale registration statement of the Company, the Investors may elect to receive Warrant Shares pursuant to a cashless exercise. The Exercise Price is subject to customary adjustments for distributions of assets, Common Share issuances, Common Share dividends, and anti-dilution of the Common Shares.

All capitalized terms not defined herein shall have their respective meanings as set forth in the Purchase Agreement, Notes and Warrants. The foregoing descriptions of the Purchase Agreement, Notes, and Warrants do not purport to be complete and each is qualified in its entirety by reference to the full text of the Purchase Agreement, Security and Pledge Agreement, Notes and Warrants, the forms of which are filed as Exhibits 10.1, 10.2, 4.1, and 4.2, respectively, to this Current Report on Form 8-K and are incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth above under Item 1.01 is hereby incorporated by reference into this Item 2.03.

Item 3.02. Unregistered Sales of Equity Securities.

The information set forth in Item 1.01 of this Current Report on Form 8-K is incorporated herein by reference into this Item 3.02 in its entirety. The Notes and the Warrants were and any Common Shares issuable upon conversion of the Notes or exercise of the Warrants will be issued in transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance on Section 4(a)(2) thereof and Rule 506 of Regulation D thereunder. The Investors have represented that they are "accredited investors," as defined in Regulation D, and were acquiring the securities described herein for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. Accordingly, the Notes and the Warrants and the Common Shares issuable upon conversion of the Notes or exercise of the Warrants have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws.

Item 9.01. Exhibits.

(d) Exhibits

Exhibit Number	Description
4.1	Form of Note
4.2	Form of Warrant
10.1	Form of Securities Purchase Agreement
10.2	Form of Security and Pledge Agreement
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 18, 2023

Lucy Scientific Discovery, Inc.

/s/ Richard Nanula
Richard Nanula
Chief Executive Officer & Executive Chairman

Exhibit 4.1

THIS NOTE HAS BEEN ISSUED WITH "ORIGINAL ISSUE DISCOUNT" FOR U.S. FEDERAL INCOME TAX PURPOSES. THE ISSUER WILL MAKE AVAILABLE TO ANY HOLDER OF THIS NOTE: (1) THE ISSUE PRICE AND ISSUE DATE OF THE NOTE, (2) THE AMOUNT OF ORIGINAL ISSUE DISCOUNT ON THE NOTE, (3) THE YIELD TO MATURITY OF THE NOTE, AND (4) ANY OTHER INFORMATION REQUIRED TO BE MADE AVAILABLE BY U.S. TREASURY REGULATIONS UPON RECEIVING A WRITTEN REQUEST FOR SUCH INFORMATION AT THE FOLLOWING ADDRESS: 301-1321 BLANSHARD STREET, VICTORIA, BRITISH COLUMBIA, CANADA V8W 0B6.

NEITHER THE ISSUANCE NOR SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER AND ACCEPTABLE BY THE BORROWER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: USD $666,666 **Issue Date: December 12, 2023**
Purchase Price: USD $600,000
Original Issue Discount: USD $66,666

SECURED CONVERTIBLE PROMISSORY NOTE

For value received, **Lucy Scientific Discovery Inc.**, a corporation organized under the laws of the province of British Columbia, Canada ("**LSDI**"), and the undersigned entities, each of which is a subsidiary of LSDI (collectively, the "**Borrower**"), hereby promises to pay to the order of **[_____]**, a limited partnership organized under the laws of the State of Delaware, or registered assigns (the "**Holder**") the principal sum of up to six hundred sixty six thousand six hundred sixty six Dollars ($666,666) or so much as has been advanced in one or more tranches plus the OID (defined below) as applicable (the "**Principal Amount**"), together with interest on the Principal Amount, on the dates set forth below or upon acceleration or otherwise, as set forth herein (or as may be amended, extended, renewed and refinanced, collectively, this "**Note**"). Interest on this Note shall accrue at a rate equal to ten percent (10%) per annum (the "**Interest Rate**"). In no event shall the Interest Rate exceed the maximum rate allowed by law; any interest payment which would for any reason be unlawful under applicable law shall be applied to principal.

The consideration to the Borrower for this Note is up to six hundred thousand Dollars ($600,000) (the "**Consideration**") to be paid to be paid in one or more tranches (each, a **"Tranche"**). The first Tranche shall consist of a payment by Holder to Borrower on the Issue Date of no less than two hundred eighty three thousand three hundred thirty four Dollars ($283,334), from which the Holder shall retain twenty thousand Dollars ($20,000) to cover its legal fees. The remainder of the Tranches shall be advanced at the sole discretion of the Holder.

The maturity date ("**Maturity Date**") for each Tranche shall be at the end of the period that begins from the date each Tranche is advanced (for each Tranche, the "**Advance Date**") and ends twelve (12) months thereafter (such periods each referred to herein as a "**Tranche Term**" and such periods collectively referred to as the "**Note Term**"), provided however that the Maturity Date for any Tranche shall be not later than twenty four months after the Issue Date. The principal sum, as well as interest and other fees shall be due and payable in accordance with the payment terms set forth in Article I herein. Notwithstanding the foregoing, the Maturity Date for this Note, and all Tranches advanced hereunder, shall be no later than the date upon which the Borrower completes a Registered Public Offering of shares of the Borrower. Subject to Section 1.5 below, this Note may not be prepaid in whole or in part except as otherwise explicitly set forth herein.

Any amount of principal, interest, other amounts due hereunder or penalties on this Note, which is not paid by the due date as specified herein, shall bear interest at the lesser of the rate of twenty four percent (24%) per annum or the maximum legal amount permitted by law ("**Default Interest Rate**"), from the due date thereof until the same is paid in full, including following the entry of a judgment in favor of Holder ("**Default Interest**").

If any payment (other than a payment due at maturity or upon default) is not made on or before its due date, the Holder may at its discretion collect a delinquency charge equal to the greater of one hundred Dollars ($100.00) or five (5%) percent of the unpaid amount. The unpaid balances on all obligations payable by Borrower and due to Holder pursuant to the terms of this Note, shall in addition to other remedies contained herein, bear interest after default or maturity at an annual rate equal to the Default Interest rate.

All payments of principal and interest due hereunder (to the extent not converted into Borrower's common stock (the "**Common Stock**" or "**Common Shares**")) shall be paid by automatic debit, wire transfer, check or in coin or currency which, at the time or times of payment, is the legal tender for public and private debts in the United States of America and shall be made at such place as Holder or the legal holder or holders of the Note may from time to time appoint in a payment invoice or otherwise in writing, and in the absence of such appointment, then at the offices of Holder at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest, then to any late charges, and then to principal. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a business day, the same shall instead be due on the next succeeding day which is a business day and, in the case of any interest payment date which is not the date on which this Note is paid in full, interest shall continue to accrue during such extension. As used in this Note, the term "**business day**" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in the city of New York, New York are authorized or required by law or executive order to remain closed.

This Note carries an original issue discount of sixty six thousand six hundred sixty six Dollars ($66,666) (the "**OID**"), to cover the Holder's accounting fees, due diligence fees, monitoring, and/or other transactional costs incurred in connection with the purchase and sale of the Note, which is included in the principal balance of this Note. Thus, the purchase price of this Note shall be six hundred thousand Dollars ($600,000), computed as follows: the Principal Amount minus the OID. The OID shall be earned upon each Tranche on a pro rata basis of their proportion of the total Consideration. For example, upon the advance of the first Tranche, thirty one thousand four hundred eighty one and 56/100 Dollars ($31,481.56) shall be added to the principal amount of the outstanding Note in addition to the amount advanced, and the total amount owed, or the total principal amount, shall be three hundred fourteen thousand eight hundred fifteen and 56/100 Dollars ($314,815.56).

It is further acknowledged and agreed that the Principal Amount owed by Borrower under this Note shall be increased by the amount of all reasonable expenses incurred by the Holder in connection with the collection of amounts due, or enforcement of any terms pursuant to, this Note. All such expenses shall be deemed added to the Principal Amount hereunder to the extent such expenses are paid or incurred by the Holder.

This Note is issued by the Borrower to the Holder pursuant to the terms of that certain Securities Purchase Agreement even date herewith (the "**Purchase Agreement**"), terms of which are incorporated by reference and made part of this Note. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in the Purchase Agreement. As used herein, the term "**Trading Day**" means any day that the Common Shares are listed for trading or quotation on any US based exchange or electronic quotation systems on which the Common Shares are then traded.

This Note shall be a senior secured obligation of the Borrower, with first priority over all current and future Indebtedness (as defined below) of the Borrower and any subsidiaries, whether such subsidiaries exist on the Issue Date or are created or acquired thereafter (each a "**Subsidiary**" and collectively, the "**Subsidiaries**"). The obligations of the Borrower under this Note are secured pursuant to the terms of the security and pledge agreement, of even date herewith, by and between the Borrower and the Holder (the "**Security and Pledge Agreement**" and collectively with the Purchase Agreement, and other related ancillary documents and agreements executed in connection thereto, the "**Transaction Documents**"), a copy of which is attached hereto as Exhibit C. The terms of the Transaction Documents are incorporated by reference and made part of this Note. With respect to any Subsidiary created or acquired subsequent to the Issue Date, Borrower agrees to cause such Subsidiary to execute any documents or agreements that would bind the Subsidiary to the terms herein and in the other Transaction Documents.

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders or members, as applicable, of Borrower and will not impose personal liability upon the holder thereof.

In addition to the terms above, the following terms shall also apply to this Note:

ARTICLE I. PAYMENTS

1.1 Principal Payments. The Principal Amount of each Tranche shall be due and payable on the Maturity Date.

1.2 Interest Payments. Interest on this Note (i) is computed separately for each Tranche; (ii) is charged on a monthly basis (that is, for each month during each Tranche Term, the amount of accrued interest is determined by multiplying one twelfth (1/12th) of the Interest Rate by the sum of the principal amount plus, if applicable, any accrued and previously due but unpaid interest of such Tranche); (iii) is payable monthly (that is, the monthly interest for each Tranche shall be due on each monthly anniversary of the Advance Date during the Tranche Term); and (iv) is guaranteed to the Holder for the entirety of each Tranche Term, without regard to an acceleration of the Maturity Date, based on the total Principal Amount of each Tranche, without regard to a reduction of the Principal Amount resulting from, without limitation, Principal Payments, Conversion (as defined below), or subject to Section 1.5 below, prepayment by Borrower. See Exhibit E, attached hereto, for a complete payment schedule for the first Tranche. Payment schedules for additional Tranches shall be provided upon distribution of such additional Tranches, upon request.

1.3 Other Payment Obligations. All payments, fees, penalties, and other charges, if any, due under this Note shall be payable pursuant to the terms contained herein, but in any case, shall be payable no later than the Maturity Date.

1.4 Gross up. If any taxes are levied or imposed on payments, fees, penalties, and other charges, if any, due under this Note or the other Transaction Documents, Borrower agrees to pay the full amount of such taxes and such additional amounts as may be necessary so that every payment of all amounts due under the Note or the other Transaction Documents, including any amount paid pursuant to this Section 1.4 after withholding or deduction for or on account of any taxes, will not be less than the amount provided for under this Note or the other Transaction Documents.

1.5 Prepayment. Borrower shall have the right at any time prior to the Maturity Date, upon thirty (30) days' notice to the Holder (the "Prepayment Notice"), to prepay the Note by making a payment to Holder equal to 110% multiplied by the sum of (i) the outstanding Principal Amount, (ii) all accrued and unpaid interest, (iii) all unaccrued interest through the remainder of the Note Term that is guaranteed pursuant to Section 1.2 above, and (iv) any other amounts due under the Note (the "Prepayment Amount"). The Prepayment Notice must be received by Holder no later than 15 days prior to the date that Borrower proposes to remit the Prepayment Amount (the "Prepayment Date"). Holder may convert any or all of this Note into shares of Common Stock prior to the Prepayment Date. If Borrower does not remit the Prepayment Amount within two (2) days of the Prepayment Date, then (i) the Prepayment Notice and the Prepayment right granted hereunder shall be canceled, (ii) Borrower shall thereafter not be permitted to Prepay the Note, and (iii) Holder's right to convert any or all of this Note into shares of Common Stock shall be reinstated.

ARTICLE II. CONVERSION RIGHTS

2.1 Conversion Right. The Holder shall have the right at any time, at the Holder's option to convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of this Note into fully paid and non-assessable Common Shares of Borrower or other securities into which such Common Shares shall hereafter be changed or reclassified (each, a "**Conversion Share**") at the conversion price (the "**Conversion Price**") determined as provided herein (a "**Conversion**"); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of Common Shares beneficially owned by the Holder and its affiliates (other than Common Shares which may be deemed beneficially owned through the ownership of the unconverted portion of the Note or the unexercised or unconverted portion of any other security of Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein, and, if applicable, net of any shares that may be deemed to be owned by any person not affiliated with the Holder who has purchased a portion of the Note from the Holder) and (2) the number of Common Shares issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding Common Shares. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso, provided, further, however, that the limitations on conversion may be waived (up to a maximum of 9.99%) by the Holder upon, at the election of the Holder, not less than 61 days' prior notice to Borrower (the "**Waiver Notice**"), and the provisions of the conversion limitation in effect prior to the waiver, shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such Waiver Notice). Notwithstanding the foregoing requirements with respect to the Waiver Notice, if the Holder is not subject to the reporting requirements under Section 13 of the Exchange Act with respect to the securities of the Borrower, then the Holder may elect to waive the limitations (up to a maximum of 9.99%) immediately upon providing a Waiver Notice to the Borrower, and the provisions of the conversion limitation in effect prior to the waiver, shall continue to apply only as determined by the Holder, as may be specified in such Waiver Notice. The beneficial ownership limitation described in this Section 2.1 shall be referred to hereinafter as the "**Beneficial Ownership Limitation**." The number of Common Shares to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the "**Notice of Conversion**"), delivered to Borrower by the Holder in accordance with Section 2.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to Borrower before 6:00 p.m., New York, New York time on such conversion date (the "**Conversion Date**"). The term "**Conversion Amount**" means, with respect to any conversion of this Note, the sum of: (1) the principal amount of this Note to be converted in such conversion; plus (2) at the Holder's option, accrued and unpaid interest; provided, however, that at the option of Holder, the accrued and unpaid interest can be converted prior to any other amounts under the Note, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date; plus (3) at the Holder's option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2); plus (4) the Holder's expenses relating to a Conversion, including but not limited to amounts paid by Holder on the Borrower's transfer agent account; plus (5) at the Holder's option, any amounts owed to the Holder pursuant to Sections 2.3 and 2.4(g) hereof.

2.2 Conversion Price.

(a) Calculation of Conversion Price. The Conversion Price shall be a $.21 (the "**Fixed Conversion Price**"); *provided* that on the date upon which an Event of Default (as defined below) under this Note occurs (such date referred to as the "**Default Date**"), the Conversion Price shall be reduced to the lower of (x) the lowest trading price on the Default Date (or if the Default Date is not a trading day, then the trading day immediately following the Default Date), or (y) a discount of 25% to the Fixed Conversion Price. After each thirty (30) day period following the occurrence of an Event of Default, the conversion price shall be reduced by an additional 15% until the Event of Default is cured.

(b) Fixed Conversion Price Adjustments.

(1) Intentionally Omitted.

(2) Common Share Distributions and Splits. If Borrower, at any time while this Note is outstanding: (i) pays a distribution on its Common Shares or otherwise makes a distribution or distributions payable in Common Shares on its Common Shares; (ii) subdivides outstanding Common Shares into a larger (or smaller) number of shares; or (iii) issues, in the event of a reclassification of shares of Common Shares, any Common Shares of Borrower, then the Fixed Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of Common Shares (excluding any treasury shares of Borrower) outstanding immediately before such event and of which the denominator shall be the number of Common Shares outstanding immediately after such event.

(3) Fundamental Transaction. If, at any time while this Note is outstanding, (i) Borrower effects any merger or consolidation of Borrower with or into another person, (ii) Borrower effects any sale of all or substantially all of its assets in one transaction or a series of related transactions, (iii) any tender offer or exchange offer (whether by Borrower or another person) is completed pursuant to which holders of Common Shares are permitted to tender or exchange their shares for other securities, cash or property, or (iv) Borrower effects any reclassification of the Common Shares or any compulsory share exchange pursuant to which the Common Shares are effectively converted into or exchanged for other securities, cash or property (in any such case, a "**Fundamental Transaction**"), then, upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of 1 Common Share (the "**Alternate Consideration**"). For purposes of any such conversion, the determination of the Fixed Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of 1 Common Share in such Fundamental Transaction, and Borrower shall apportion the Fixed Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration.

(4) Anti-dilution Adjustment. If at any time while this Note is outstanding, Borrower sells, grants, or otherwise makes a disposition of Common Shares, or sells, grants, or otherwise makes a disposition of other securities (or in the case of securities existing on the Issue Date, amends such securities) convertible into, exercisable for, or that would otherwise entitle any person or entity the right to acquire Common Shares, or announces its intention, or files any document with the SEC or other regulatory body that reflects its intention to do of any of the foregoing, at an effective price per share that is lower than the then Fixed Conversion Price (such lower price, the "**Base Conversion Price**" and such issuances, collectively, a "**Dilutive Issuance**") (it being agreed that if the holder of the Common Shares or other securities so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive Common Shares at an effective price per share that is lower than the Fixed Conversion Price, such issuance shall be deemed to have occurred for less than the Conversion Price on such date of the Dilutive Issuance, and the Base Conversion Price shall then be adjusted to equal the lowest of such issuance price), then the Fixed Conversion Price shall be reduced to a price equal the Base Conversion Price as it may be adjusted as provided for above. Such adjustment shall be made whenever such Common Shares or other securities are issued. Notwithstanding the foregoing, no adjustment will be made under this Section 2.2(b)(4) in respect of an Exempt Issuance. For purposes of this Section 2.2(b)(4) an "**Exempt Issuance**" means an issuance of Common Shares or other securities convertible into or exercisable or exchangeable for Common Shares (i) to employees or directors of, or consultants or advisors to, Borrower or any of its Subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of Borrower, (ii) to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction approved by the Board of Directors of Borrower, (iii) to suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions approved by the Board of Directors of Borrower, (iv) pursuant to the acquisition of another corporation or other entity by Borrower by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors of Borrower, (v) to third parties in connection with collaboration, technology license, development, marketing or other similar agreements or strategic partnerships approved by the Board of Directors of Borrower, or (vi) shares with respect to which the Holder waives its anti-dilution rights granted hereby; provided, however, that any such issuance described in (iii) through (v) shall only be to a person (or to the equity holders of a person) which is, itself or through its Subsidiaries, an operating business, or an owner of an asset that is used in a business, that is synergistic with the business of Borrower and shall provide to Borrower additional benefits in addition to the investment of funds, and provided however, that none of (i) through (v) above shall include a transaction in which Borrower is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities. In the event of an issuance of securities involving multiple tranches or closings, any adjustment pursuant to this Section 2.2(b)(4) shall be calculated as if all such securities were issued upon distribution of the initial tranche. For the avoidance of doubt, in the event the Conversion Price has been adjusted pursuant to this Section 2.2(b)(4) and the Dilutive Issuance that triggered such adjustment does not occur, is not consummated, is unwound or is cancelled after the facts for any reason whatsoever, in no event shall the Conversion Price be readjusted to the Conversion Price that would have been in effect if such Dilutive Issuance had not occurred or been consummated.

(5) Notice to the Holder. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 2.2(b), Borrower shall within two (2) business days deliver to the Holder a notice setting forth the Fixed Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment, provided that Borrower's failure to timely provide the notice shall not affect the automatic adjustments contemplated hereby.

2.3 Authorized Shares. Borrower covenants that during the period the conversion right exists, Borrower will reserve from its authorized and unissued Common Shares a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Shares upon the full conversion of this Note and exercise of the Warrants. Borrower is required at all times to have authorized and reserved seven (7) times the number of shares that is actually issuable upon full conversion of the Note (based on the Conversion Price of the Note in effect from time to time, which, if cannot be determined shall be estimated in good faith by Borrower) it being acknowledged and agreed by the parties that for the initial issuance of the Note, 50,000,000 shares of Common Shares is sufficient and will be reserved (the "**Reserved Amount**"). With respect to establishing the Reserve Amount, Borrower covenants and agrees to increase the number of its authorized shares of common stock to accommodate the Reserve Amount within five (5) days of the Issue Date. Borrower's failure to complete such action within such five-day period shall constitute an Event of Default. The Reserved Amount shall be increased from time to time in accordance with Borrower's obligations hereunder. Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if Borrower shall issue any securities or make any change to its capital structure which would change the number of Common Shares into which the Note shall be convertible at the then current Conversion Price, Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of Common Shares authorized and reserved, free from preemptive rights, for conversion of the outstanding Note, including but not limited to authorizing additional shares or effectuating a reverse split. Borrower (i) acknowledges that it has irrevocably instructed its transfer agent by letter, a copy of which is attached hereto as Exhibit B to issue certificates for the Common Shares issuable upon conversion of this Note and exercise of the Warrants, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing Common Share certificates to execute and issue the necessary certificates for Common Shares in accordance with the terms and conditions of this Note. Borrower further covenants that so long as any obligation under this Note remains outstanding, Borrower will not establish a reserve of its Common Shares for the benefit of any party other than the Holder, without prior approval in writing by Holder. Failure by Borrower to maintain the Reserved Amount, or the failure by Borrower to be engaged with a transfer agent and subject to the terms of an irrevocable instruction letter according to the terms herein, or the establishment of a reserve without prior approval as required above, will be considered an Event of Default under Section 4.1.2 of the Note.

2.4 Method of Conversion.

(a) Mechanics of Conversion. Subject to Section 2.1, this Note may be converted by the Holder in whole or in part, at any time from the date hereof, by (A) submitting to Borrower or its transfer agent, a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 7:00 p.m., New York, New York time) and (B) subject to Section 2.4(b), surrendering this Note at the principal office of Borrower.

(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and Borrower, so as not to require physical surrender of this Note upon each such conversion. In the event of any dispute or discrepancy, such records of Borrower shall, *prima facie,* be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

(c) Payment of Taxes. Borrower shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of Common Shares or other securities or property on conversion of this Note in a name other than that of the Holder (or in street name), and Borrower shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons (other than the Holder or the custodian in whose street name such shares are to be held for the Holder's account) requesting the issuance thereof shall have paid to Borrower the amount of any such tax or shall have established to the satisfaction of Borrower that such tax has been paid.

(d) Delivery of Common Shares Upon Conversion. Upon receipt by Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 2.4, Borrower shall issue and deliver to or cause to be issued and delivered to or upon the order of the Holder certificates for Common Shares issuable upon such conversion by the end of the third business day after such receipt (the "**Deadline**") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof. Failure to issue and deliver shares or cause to be issued and delivered shares by the Deadline as described above, will be considered an Event of Default under Section 4.1.2 of the Note.

(e) Obligation of Borrower to Deliver Common Shares. Upon receipt by Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Shares issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless Borrower defaults on its obligations under this Article II, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Shares or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, Borrower's obligation to issue and deliver the certificates for Common Shares shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of Borrower to the Holder in connection with such conversion. The Conversion Date specified in the Notice of Conversion shall be the Conversion Date so long as the Notice of Conversion is received by Borrower before 7:00 p.m., New York, New York time, on such date.

(f) Delivery of Common Shares by Electronic Transfer. In lieu of delivering physical certificates representing the Common Shares issuable upon conversion, provided Borrower is participating in the Depository Trust Company ("**DTC**") Fast Automated Securities Transfer ("**FAST**") program, upon request of the Holder and its compliance with the provisions contained in Section 2.1 and in this Section 2.4, Borrower shall use its best efforts to cause its transfer agent to electronically transmit the Common Shares issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal Agent Commission ("**DWAC**") system. If the Borrower is not registered with DTC as of the Issue Date, the Borrower shall be required to register with DTC within 30 days of the Issue Date, and the provisions of this paragraph shall apply after such registration. Failure to become DTC registered or maintain DTC eligibility as provided herein shall be an Event of Default under Section 4.1.22 of this Note.

(g) Failure to Deliver Common Shares Prior to Deadline. Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, or other remedies provided to Holder herein, the parties agree that if Borrower causes the Common Shares issuable upon conversion of this Note to not be delivered by the second (2nd) Trading Day following the Deadline, Borrower shall pay to the Holder $1,000 per day in cash, for each day beyond the Deadline that Borrower fails to deliver such Common Shares, in addition to the product of the number of shares issuable upon the conversion multiplied by the difference between the highest trade price and the lowest trade price during the period beginning on the date that such conversion was submitted, and the date on which the Shares are delivered to Holder's Prime Broker and are available to be sold. Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Shares in accordance with the terms of this Note. Borrower agrees that the right to convert is a valuable right to the Holder, and as such, Borrower will not take any actions to hamper, delay or prevent any Holder conversion of the Note. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 2.4(g) are justified.

2.5 Concerning the Common Shares. The Common Shares issuable upon conversion of this Note may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) ("**Rule 144**") or (iv) such shares are transferred to an "**affiliate**" (as defined in Rule 144) of Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 2.5 and who is an Accredited Investor. Except as otherwise provided (and subject to the removal provisions set forth below), until such time as the Common Shares issuable upon conversion of this Note have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Common Shares issuable upon conversion of this Note that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

> **NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER AND ACCEPTABLE TO THE COMPANY), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.**

The legend set forth above shall be removed and Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if (i) Borrower or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Shares may be made without registration under the Act, which opinion shall be accepted by Borrower (which acceptance shall be subject to and conditioned on any requirements, if any, of the its transfer agent, the exchange on which Borrower is then trading or other applicable laws, rules or regulations) so that the sale or transfer is effected or (ii) in the case of the Common Shares issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold. In the event that Borrower does not accept the opinion of counsel provided by the Holder with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 4.1.2 of the Note; provided that notwithstanding the foregoing, if Borrower is legally unable to accept such opinion as a result of any of Borrower's transfer agent requirements, the requirements of the exchange on which Borrower is then traded, or other applicable laws, rules or regulations, Borrower's non-acceptance shall be an Event of Default pursuant to Section 4.1.25.

2.6 Status as Shareholder. Upon submission of a Notice of Conversion by a Holder, (i) the shares covered thereby (other than the shares, if any, which cannot be issued because their issuance would exceed such Holder's allocated portion of the Reserved Amount or Maximum Share Amount) shall be deemed converted into Common Shares and (ii) the Holder's rights as a Holder of such converted portion of this Note shall cease and terminate, excepting only the right to receive certificates for such Common Shares and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by Borrower to comply with the terms of this Note. Notwithstanding the foregoing, if a Holder has not received certificates for all Common Shares prior to the tenth (10th) business day after the expiration of the Deadline with respect to a conversion of any portion of this Note for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Shares by so notifying Borrower) the Holder shall regain the rights of a Holder of this Note with respect to such unconverted portions of this Note and Borrower shall, as soon as practicable, return such unconverted Note to the Holder or, if the Note has not been surrendered, adjust its records to reflect that such portion of this Note has not been converted. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive Conversion Default Payments pursuant to Section 2.4 to the extent required thereby for such Conversion Default and any subsequent Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions adjusted upon an Event of Default (if applicable), for Borrower's failure to convert this Note.

ARTICLE III. RANKING, CERTAIN COVENANTS, AND POST CLOSING OBLIGATIONS

3.1 Warrants. Upon the advance of the first Tranche by Holder to the Borrower, Borrower shall issue to Holder a warrant exercisable for 500,000 Common Shares (the "**Warrant**"). The Warrant shall have (i) an exercise period of 60 Months, (ii) an exercise price equal to a $.25, and (iii) provide for full ratchet anti-dilution protection provisions.

3.2 Equity Interest. On the earliest date that the Common Stock would be eligible to be free trading in the hands of the Holder (either pursuant to registration, Rule 144, or any other applicable exemption from registration) (such date referred to as the "**Equity Interest Due Date**"), Borrower shall issue to Holder a number of Common Shares so that the value of such shares in the aggregate is equal to one hundred fifty thousand Dollars ($150,000) (the "**Equity Interest Value**") based on the lowest daily VWAP during the twenty (20) trading days preceding the date of issuance (the "**Equity Interest**"). The Equity Interest Value shall be pro-rated based on the portion of the Purchase Price advanced on the Equity Interest Due Date, provided however, that the Equity Interest Value shall be at least ninety thousand Dollars ($90,000) on the Equity Interest Due Date with the remainder due upon advance of each Tranche subsequent to the Equity Interest Date.

3.3 Distributions on Common Shares. So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder's written consent (a) pay, declare or set apart for such payment, any dividend or other distribution (whether in cash, property or other securities) on the Common Shares (or other capital securities of the Borrower) other than dividends on Common Shares solely in the form of additional Common Shares or (b) directly or indirectly or through any Subsidiary make any other payment or distribution in respect of Common Shares (or other securities representing its capital) except for distributions that comply with Section 3.7 below.

3.4 Restrictions on Variable Rate Transactions. Unless approved by the Holder, while any Note is outstanding, Borrower and each Subsidiary shall not enter into an agreement or amend an existing agreement to effect any sale of securities involving, or convert any securities previously issued under, a Variable Rate Transaction. The term "**Variable Rate Transaction**" means a transaction in which Borrower or any Subsidiary (i) issues or sells any convertible securities either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of, or quotations for, the Common Shares at any time after the initial issuance of such convertible securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such convertible securities or upon the occurrence of specified or contingent events directly or indirectly related to the business of Borrower or the Subsidiary, as the case may be, or the market for the Common Shares, or (ii) enters into any agreement (including, without limitation, an "equity line of credit" or an "at-the-market offering") whereby Borrower or any Subsidiary may sell securities at a future determined price (other than standard and customary "preemptive" or "participation" rights). The Holder shall be entitled to obtain injunctive relief against Borrower and its Subsidiaries to preclude any such issuance, which remedy shall be in addition to any right to collect damages.

3.5 Restrictions on Other Certain Transactions. So long as the Borrower shall have any obligation under this Note and unless approved in writing by the Holder (which such approval not to be unreasonably withheld), the Borrower shall not directly or indirectly: (a) change the nature of its business; (b) sell, divest, change the structure of any material assets of the Borrower or any Subsidiary other than in the ordinary course of business (c) accept Merchant-Cash-Advances in which it sells future receivables at a discount, any other factoring transactions, or similar financing instruments or financing transactions; or (d) Enter into a borrowing arrangement where the Borrower pays an effective APR greater than 20%.

3.6 Restriction on Common Share Repurchases. So long as the Borrower shall have any obligation under this Note, Borrower shall not without the Holder's written consent redeem, repurchase or otherwise acquire (whether for cash or in exchange for property or other securities or otherwise) in any one transaction or series of related transactions any Common Shares (or other securities representing its capital) of Borrower or any warrants, rights or options to purchase or acquire any such shares; except for the repurchase of shares at a nominal price in connection with rights under an agreement with an employee or consultant of the Borrower whose shares have been forfeited as a result of such employee or consultant's ceasing to provide services to the Borrower.

3.7 Payments from Future Funding Sources. The Borrower shall pay to the Holder on an accelerated basis, any outstanding Principal Amount of the Note, along with all unpaid interest, and fees and penalties, if any, from the sources of capital below, at the Holder's discretion, it being acknowledged and agreed by Holder that Borrower shall have the right to make Bona Fide payments to vendors with Common Shares:

3.7.1 Future Financing Proceeds. One hundred percent (100%) of the net proceeds of any future financings by Borrower or any Subsidiary, whether debt or equity, or any other financing proceeds such as cash advances, royalties or earn-out payments provided, however, that this provision is not applicable if the transaction generating the future financing proceeds has a specific use of proceeds requirement that such proceeds are to be used exclusively to purchase the assets or equity of an unaffiliated business in an arm's length transaction or such proceeds are to be used exclusively to develop the existing assets of the Borrower and the proceeds are used accordingly.

3.7.2 Other Future Receipts. One hundred percent (100%) of the net proceeds to the Borrower or Subsidiary resulting from the sale of any assets or securities, of Borrower or any of its Subsidiaries, including but not limited to, the sale of any Subsidiary, the receipt in cash by Borrower or any of its Subsidiaries of any tax refunds, the sale of any tax credits, collections by Borrower or any of its Subsidiaries pursuant to any settlement or judgement, but not including sales of inventory of the Borrower or its Subsidiaries in the ordinary course of business.

3.8 Use of Proceeds. Borrower agrees to use the proceeds of the Tranches advanced under this Note for general working capital.

3.9 Ranking and Security. The obligations of the Borrower under this Note shall constitute a first priority security interest and rank senior with respect to any and all Indebtedness existing prior to or incurred as of or following the initial Issue Date. The obligations of the Borrower under this Note are secured pursuant to the Security and Pledge Agreement attached hereto. So long as the Borrower shall have any obligation under this Note, the Borrower shall not (directly or indirectly through any Subsidiary or affiliate) incur or suffer to exist or guarantee any Indebtedness that is senior to or *pari passu* with (in priority of payment and performance) the Borrower's obligations hereunder. As used herein, the term "**Indebtedness**" means (a) all indebtedness of the Borrower for borrowed money or for the deferred purchase price of property or services, including any type of letters of credit, but not including deferred purchase price obligations in place as of the Issue Date or obligations to trade creditors incurred in the ordinary course of business, (b) all obligations of the Borrower evidenced by notes, bonds, debentures or other similar instruments, (c) purchase money indebtedness hereafter incurred by the Borrower to finance the purchase of fixed or capital assets, including all capital lease obligations of the Borrower which do not exceed the purchase price of the assets funded, (d) all guarantee obligations of the Borrower in respect of obligations of the kind referred to in clauses (a) through (c) above that the Borrower would not be permitted to incur or enter into, and (e) all obligations of the kind referred to in clauses (a) through (d) above that the Borrower is not permitted to incur or enter into that are secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured and/or unsecured by) any lien or encumbrance on property (including accounts and contract rights) owned by the Borrower, whether or not the Borrower has assumed or become liable for the payment of such obligation. With respect to any Indebtedness that is a senior secured obligation of the Borrower, Borrower agrees to cause the holders of such Indebtedness to execute subordination agreements with respect to the Borrower's obligations under this Note, and to deliver such subordination agreements to the Holder on or prior to the Issue Date.

3.10 Intentionally Omitted.

3.11 Intentionally Omitted.

3.12 Terms of Future Financings. So long as any obligations of the Borrower under the Note are outstanding, upon any issuance of (or announcement of intent to effect an issuance of) any security, or amendment to (or announcement of intent to effect an amendment to) any security that was originally issued before the Issue Date, by the Borrower or any Subsidiary, with any term that the Holder reasonably believes is more favorable to the holder of such security than to the Holder in the Transaction Documents, or with a term in favor of the holder of such security that the Holder reasonably believes was not similarly provided to the Holder in the Transaction Documents, then (i) the Borrower shall notify the Holder of such additional or more favorable term within three (3) business days of the issuance and/or amendment (as applicable) of the respective security, and (ii) such term, at Holder's option, shall become a part of the transaction documents with the Holder (regardless of whether the Borrower complied with the notification provision of this Section 3.12). The types of terms contained in another security that may be more favorable to the holder of such security include, but are not limited to, terms addressing conversion price, conversion price discounts and adjustments, prepayment rate, conversion lookback periods, interest rates, original issue discounts, stock sale price, private placement price per share, commitment shares, and warrant coverage. If Holder elects to have the term become a part of the transaction documents with the Holder, then the Borrower shall immediately deliver acknowledgment of such adjustment in form and substance reasonably satisfactory to the Holder (the "Acknowledgment") within three (3) business days of Borrower's receipt of request from Holder (the "Adjustment Deadline"), provided that Borrower's failure to timely provide the Acknowledgement shall not affect the automatic amendments contemplated hereby.

3.13 Registration Rights.

3.13.1 Piggyback Registration. If the Borrower or any Subsidiary proposes to register any of its Common Shares (other than pursuant to a Registration on Form S-4 or S-8 or any successor form), it will give prompt written notice to the Holder of its intention to effect such registration (the "Incidental Registration"). Within twenty (20) business days of receiving such written notice of an Incidental Registration, the Holder may make a written request (the "Piggy-Back Request") that the Borrower include in the proposed Incidental Registration all, or a portion, of the Underlying Securities owned by the Holder. As used herein, Underlying Securities shall mean the shares issuable upon exercise of the Warrant, the Equity Interest, the shares issuable upon Conversion of the Note, and the Reserved Amount. The Borrower will use its commercially reasonable efforts to include in any Incidental Registration all Underlying Securities which the Borrower has been requested to register pursuant to any timely Piggy-Back Request to the extent required to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered. Failure to register the Underlying Securities pursuant to this Section 3.13 shall be an Event of Default pursuant to Section 4.1.3 of the Note.

3.13.2 Mandatory Qualification. Within thirty (30) days of the Issue Date, Borrower shall be required to file a registration statement with the SEC to register the Underlying Securities. Such registration statement shall be required to be declared effective by the SEC, within sixty (60) days of the Issue Date.

3.14 Rollover Rights. So long as the Note is outstanding, if the Borrower completes any public offering or private placement of its equity, equity-linked or debt securities (each, a "**Future Transaction**"), the Holder may, in its sole discretion, elect to apply as purchase consideration for such Future Transaction: (i) all, or any portion, of the then outstanding principal amount of the Note and any accrued but unpaid interest, including any amounts that would be added to the principal outstanding in the event that any redemption right or prepayment right is exercised by either the Holder or the Borrower, and (ii) any securities of the Borrower then held by the Holder, at their fair value (the "**Rollover Rights**"). The Borrower shall give written notice to Holder as soon as practicable, but in no event less than fifteen (15) days before the anticipated closing date of such Future Transaction. The Holder may exercise its Rollover Rights by providing the Borrower written notice of such exercise within five Business Days before the closing of the Future Transaction. In the event Holder exercises its Rollover Rights, then such elected portion with respect to (i) and (ii) above, shall automatically convert into the corresponding securities issued in such Future Transaction under the terms of such Future Transaction, such that the Holder will receive all securities (including, without limitation, any warrants) issuable under the Future Transaction.

3.15 Regulatory Reporting. Borrower shall be required to be in compliance with the requirements of the Exchange Act, and be required to remain a fully reporting company under the SEC reporting requirements and remain subject to and fully compliant with, the annual and periodic reporting requirements of the Exchange Act (including but not limited to becoming current in its filings). Failure to remain a fully reporting company and subject to and compliant with the Exchange Act as described herein, (including but not limited to becoming delinquent in its filings), shall be an Event of Default (as defined below) under Section 4.1.9.

3.16 Opinion Letter.

3.16.1 Borrower shall be responsible for supplying an opinion letter from a duly admitted attorney, in a form acceptable to the Holder, the Borrower's transfer agent, specific to the fact that Common Shares issued pursuant the Note, including the Equity Interest, as well as the shares issued upon conversion of the Note or exercise of the Warrant, are either exempt from the registration requirements of the Securities Act pursuant to Rule 144 (so long as the requirements of Rule 144 are satisfied) or have been duly registered and permitted to be sold and transferred without restriction (so long as the shares have been duly registered and permitted to be sold and transferred without restriction). Failure to provide an opinion letter as described herein shall be an event of default pursuant to Section 4.1.2 of the Note.

3.16.2 Borrower shall be responsible for supplying an opinion letter from a duly admitted attorney, in a form acceptable to the Holder, that the transaction contemplated herein, as well as the execution of the Transaction Documents, have been duly authorized by the Borrower in accordance with its governing documents.

ARTICLE IV. EVENTS OF DEFAULT

4.1 It shall be considered an event of default if any of the following events listed in this Article IV (each, an "**Event of Default**") shall occur:

4.1.1 Failure to Pay Principal or Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity, upon acceleration or otherwise. A five (5) day cure period shall apply for failure to make a payment when due.

4.1.2 Failure to Reserve or Deliver Shares. (a) Borrower fails to reserve a sufficient amount of Common Shares as required under the terms of this Note (including the requirements of Section 2.3 of this Note), fails to issue Common Shares to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) Common Shares issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, Borrower directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) Common Shares to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, or fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any Common Shares issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note subject to regulations (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph), or fails to supply an opinion letter specific to the fact that Common Stock issued pursuant to conversion of the Note, as well as the shares issued pursuant to the Warrant are exempt from Registration Requirements pursuant to Rule 144, and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion. It is an obligation of Borrower to remain current in its obligations to its transfer agent. It shall be an event of default of this Note, if a conversion of this Note is delayed, hindered or frustrated due to a balance owed by Borrower to its transfer agent. If at the option of the Holder, the Holder advances any funds to Borrower's transfer agent in order to process a conversion, such advanced funds shall be paid by Borrower to the Holder within five (5) business days of a demand from the Holder, either in cash or as an addition to the outstanding Principal Amount of the Note, and such choice of payment method is at the discretion of Borrower. (b) Borrower establishes a reserve of its Common Shares for the benefit of a party other than the Holder, without obtaining prior approval in writing by the Holder.

4.1.3 Breach of Covenants. Borrower, or the relevant related party, as the case may be, breaches any material covenant, post-closing obligation or other material term or condition contained in any Transaction Document and breach continues for a period of thirty (30) days.

4.1.4 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given pursuant hereto or in connection herewith, shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) an adverse effect on the rights of the Holder with respect to this Note and the other Transaction Documents.

4.1.5 Receiver or Trustee. Borrower or any subsidiary of Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed.

4.1.6 Judgments or Settlements. (i) Any money judgment, writ or similar process shall be entered or filed against Borrower or any subsidiary of Borrower or any of its property or other assets for more than $100,000, and shall remain unvacated, unbonded or unstayed for a period of thirty (30) days unless otherwise consented to by the Holder; or (ii) the settlement of any claim or litigation, creating an obligation on the Borrower in amount over $100,000 or where value of the underlying claim or dispute was at least $100,000.

4.1.7 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Borrower or any subsidiary of Borrower. With respect to any such proceedings that are involuntary, Borrower shall have a 60 day cure period in which to have such involuntary proceedings dismissed.

4.1.8 Delisting of Common Shares. If at any time on or after the date hereof, the Borrower shall fail to maintain the listing or quotation of the Common Shares on a national securities exchange, and the Borrower does not cure such failure within thirty (30) days.

4.1.9 Failure to Comply with Regulatory Reporting Requirements. Borrower fails to be fully compliant with, or ceases to be subject to, the reporting requirements of the Exchange Act (including but not limited to becoming delinquent in its filings).

4.1.10 Change of Control or Liquidation. Any Change of Control of the Borrower, or the dissolution, liquidation, or winding up of Borrower or any substantial portion of its business. As used herein, a "Change of Control" shall be deemed to occur upon the consummation of any of the following events: (a) any person or persons acting together which would constitute a "group" for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (other than the Borrower or any subsidiary of the Borrower) shall beneficially own (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, at least 50% of the total voting power of all classes of capital stock of the Borrower entitled to vote generally in the election of the Board; (b) Current Directors (as herein defined) shall cease for any reason to constitute at least a majority of the members of the Board (for this purpose, a "Current Director" shall mean any member of the Board as of the date hereof and any successor of a Current Director whose election, or nomination for election by the Borrower's shareholders, was approved by at least a majority of the Current Directors then on the Board); (c) (i) the complete liquidation of the Borrower or (ii) the merger or consolidation of the Borrower, other than a merger or consolidation in which (x) the holders of the Common Shares of the Borrower immediately prior to the consolidation or merger have, directly or indirectly, at least a majority of the Common Shares of the continuing or surviving corporation immediately after such consolidation or merger or (y) the Board immediately prior to the merger or consolidation would, immediately after the merger or consolidation, constitute a majority of the board of directors of the continuing or surviving corporation, which liquidation, merger or consolidation has been approved by the shareholders of the Borrower; (d) the sale or other disposition (in one transaction or a series of transactions) of all or substantially all of the assets of the Borrower pursuant to an agreement (or agreements) which has (have) been approved by the shareholders of the Borrower; or (e) the appointment of a new chief executive officer.

4.1.11 Cessation of Operations. Any cessation of operations by the Borrower or the Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

4.1.12 Maintenance of Assets. The failure by Borrower to maintain any intellectual property rights, personal, real property or other assets which are necessary to conduct its business (whether now or in the future), to the extent that such failure would result in a material adverse condition or material adverse change in or affecting the business operations, properties or financial condition of Borrower or any of its subsidiaries (a "Material Adverse Effect").

4.1.13 Financial Statement Restatement. Borrower restates any financial statements for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note.

4.1.14 Failure to Execute Transaction Documents or Complete the Transaction. The failure of the Borrower to execute any of the Transaction Documents.

4.1.15 Illegality. Any court of competent jurisdiction issues an order declaring this Note, any of the other Transaction Documents or any provision hereunder or thereunder to be illegal, as long as such declaration was not the result of an act of negligence by the Holder, exclusive of the execution of the Transaction Documents or the transactions and acts contemplated herein.

4.1.16 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any covenant or other term or condition contained in any of the other financial instrument, including but not limited to all promissory notes, currently issued, or hereafter issued, by the Borrower, to the Holder or any other third party (the "Other Agreements"), after the passage of all applicable notice and cure or grace periods, that results in a Material Adverse Effect shall, at the option of the Holder, be considered a default under this Note, in which event the Holder shall be entitled to apply all rights and remedies of the Holder under the terms of this Note by reason of a default under said Other Agreement or hereunder.

4.1.17 Variable Rate Transactions. The Borrower (i) enters into a Variable Rate Transaction (as defined herein) (ii) issues Common Shares (or convertible securities or purchase rights) pursuant to an equity line of credit of the Borrower or otherwise in connection with a Variable Rate Transaction (whether now existing or entered into in the future) or (iii) adjusts downward the "floor price" at which Common Shares (or convertible securities or purchase rights) may be issued under an equity line of credit or otherwise in connection with a Variable Rate Transaction (whether now existing or entered into in the future).

4.1.18 Certain Transactions. Borrower enters into certain transactions prohibited by Sections 3.3, 3.4, 3.5, and 3.6 of this Agreement.

4.1.19 Reverse Splits. The Borrower effectuates a reverse split of its Common Shares without twenty (20) days prior written notice to the Holder.

4.1.20 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

4.1.21 DTC "Chill". The DTC places a "chill" (i.e. a restriction placed by DTC on one or more of DTC's services, such as limiting a DTC participant's ability to make a deposit or withdrawal of the security at DTC) on any of the Borrower's securities and such restriction is not remedied within two (2) weeks.

4.1.22 DWAC Eligibility. In addition to the Event of Default in Section 4.1.21, the Common Stock is otherwise not eligible for trading through the DTC's Fast Automated Securities Transfer or Deposit/Withdrawal at Custodian programs, or if the Borrower is not registered with DTC on the Issue Date, Borrower fails to become DTC registered within 30 days of the Issue Date.

4.1.23 Bid Price. The Borrower shall lose the "bid" price for its Common Stock ($0.0001 on the "Ask" with zero market makers on the "Bid" per Level 2) and/or a market (including the OTC Pink, OTCQB or an equivalent replacement marketplace or exchange) on any three (3) trading days while the Note is outstanding.

4.1.24 Inside Information. Any attempt by the Borrower or its officers, directors, and/or affiliates to transmit, convey, disclose, or any actual transmittal, conveyance, or disclosure by the Borrower or its officers, directors, and/or affiliates of, material non-public information concerning the Borrower, to the Holder or its successors and assigns, which is not immediately cured by Borrower's filing of a Form 8-K pursuant to Regulation FD on that same date.

4.1.25 Failure of Security Interest. (a) Any material provision of the Security and Pledge Agreement shall at any time for any reason (other than pursuant to the express terms thereof) cease to be valid and binding on or enforceable against the Borrower or any Subsidiary intended to be a party thereto, or the validity or enforceability thereof shall be contested by any party thereto, or a proceeding shall be commenced by the Borrower or any Subsidiary or any governmental authority having jurisdiction over any of them, seeking to establish the invalidity or unenforceability thereof, or the Borrower or any Subsidiary shall deny in writing that it has any liability or obligation purported to be created under the Security and Pledge Agreement; (b) the Security and Pledge Agreement, after delivery thereof pursuant hereto, shall for any reason fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, first priority Lien in favor of the Holder on any collateral purported to be covered thereby.

4.1.26 Failure to Register Shares. The Borrower shall fail to cause the Underlying Shares to be registered pursuant to Section 3.13.

4.1.27 Executive or Officer Conduct. Any Executive or Officer of the Borrower is arrested for violating any law, rule, regulation, or cease-and-desist order, or is convicted of a criminal offense in a state of federal court (but not including traffic violations or similar offenses).

4.2 Remedies Upon Default.

4.2.1 Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), in addition to and without limitation of other remedies set forth herein in this Note, (i) interest shall accrue at the Default Interest rate; (ii) this Note shall become immediately due and payable, all without demand, presentment or notice, all of which are hereby expressly waived by the Borrower, and the Borrower shall pay to the Holder, an amount (the "Default Amount") equal to the sum of the Principal Amount then outstanding (including Liquidating Damages, defined below) plus accrued and unpaid interest through the date of the Event of Default, plus unaccrued interest through the remainder of the Note Term, together with all costs, including, without limitation, legal fees and expenses of collection, and Default Interest through the date of full repayment; and (iii) a liquidated damages charge equal to 25% of the outstanding balance due under the Note ("Liquidating Damages") will be assessed and will become immediately due and payable to the Holder, either in form of a cash payment or as an addition to the Principal Amount due under the Note. In addition, the Holder shall be entitled to exercise all other rights and remedies available at law or in equity, including, without limitation, those set forth in the Related Documents.

4.2.2 Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), Borrower shall incur a monthly monitoring fee ("Monitoring Fee") in the amount of ten thousand Dollars ($10,000) per month commencing in the month in which the Event of Default occurs and continuing until the Event of Default is cured in order to cover the Holder's costs of monitoring and legal expenses and other expenses incurred by Holder.

4.2.3 Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), and in addition to any other right or remedy of the Holder hereunder, under the Purchase Agreement or otherwise at law or in equity, the Borrower hereby irrevocably authorizes and empowers Holder or its legal counsel, each as the Borrower's attorney-in-fact, to appear *ex parte* and without notice to the Borrower to confess judgment against the Borrower for the unpaid amount of this Note as evidenced by the Affidavit of Confession of Judgment signed by the Borrower as of the Issue Date and to be completed by the Holder or its counsel pursuant to the foregoing power of attorney (which power is coupled with an interest), a copy of which is attached as Exhibit E hereto (the "Affidavit"). The Affidavit shall set forth the amount then due hereunder, plus attorney's fees and cost of suit, and to release all errors, and waive all rights of appeal. If properly exercised by Holder, the Borrower waives the right to contest Holder's rights under this Article IV, including without limitation the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect. No single exercise of the foregoing right and power to confess judgment will be deemed to exhaust such power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, and such power shall continue undiminished and may be exercised from time to time as the Holder may elect until all amounts owing on this Note have been paid in full.

4.2.4 Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), Holder to have right to inspect the books and records of the Borrower, at reasonable business hours, at Holder's sole discretion.

4.2.5 Notwithstanding anything to the contrary contained in this Note, upon the occurrence of an Event of Default specified in Article 4 of this Note (after the expiration of any applicable cure period), Borrower may not repay any amount outstanding under this Note without the express written consent of the Holder.

4.3 Notice of Default. Borrower shall be required to provide written Notice to the Holder immediately upon becoming aware of the occurrence of any event that is either reasonably likely to have a Material Adverse Effect or that would reasonably be deemed an Event of Default (without regard to Borrower's ability to cure such Event of Default, if applicable), provided however, that Borrower's failure to timely provide such notice shall not prevent this Note being deemed in default.

ARTICLE V. MISCELLANEOUS

5.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

5.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, facsimile, or electronic mail addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery, upon electronic mail delivery, or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

Lucy Scientific Discovery Inc.
301-1321 Blanshard Street
Victoria, British Columbia, Canada V8W 0B6
Attn: Richard Nanula
e-mail:

If to the Holder:

[Holder]
[Holder Address]
Attn: [___]
e-mail: [_____]
Cc: [_____]

5.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "**Note**" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

5.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Each transferee of this Note must be an "accredited investor" (as defined in Rule 501(a) of the 1933 Act).

5.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof costs of collection, including attorneys' fees. Such amounts spent by Holder shall be added to the Principal Amount of the Note at the time of such expenditure.

5.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Delaware without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state and/or federal courts located in Delaware. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. **THE BORROWER IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTIONS CONTEMPLATED HEREBY**. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. The Borrower irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Note or any other Transaction Documents by being mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to the Borrower at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

5.7 Certain Amounts. Whenever pursuant to this Note the Borrower is required to pay an amount in excess of the outstanding principal amount (or the portion thereof required to be paid at that time) plus accrued and unpaid interest plus Default Interest on such interest, the Borrower and the Holder agree that the actual damages to the Holder from the receipt of cash payment on this Note may be difficult to determine and the amount to be so paid by the Borrower represents stipulated damages and not a penalty.

5.8 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required.

5.9 Usury. To the extent it may lawfully do so, the Borrower hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any action or proceeding that may be brought by the Holder in order to enforce any right or remedy under this Note. Notwithstanding any provision to the contrary contained in this Note, it is expressly agreed and provided that the total liability of the Borrower under this Note for payments which under Delaware law are in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "**Maximum Rate**"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums which under Delaware law in the nature of interest that the Borrower may be obligated to pay under this Note exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by Delaware law and applicable to this Note is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to this Note from the effective date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Borrower to the Holder with respect to indebtedness evidenced by this Note, such excess shall be applied by the Holder to the unpaid principal balance of any such indebtedness or be refunded to the Borrower, the manner of handling such excess to be at the Holder's election.

5.10 Section 3(a)(10) Transactions. At all times while this Note is outstanding, Borrower shall be prohibited to enter into a transaction structured in accordance with, based upon, or related or pursuant to, in whole or in part, Section 3(a)(10) of the Securities Act ("3(a)(10) Transaction"). If Borrower enters into a 3(a)(10) Transaction, it shall be an event of default pursuant to Section 4.3, and the Liquidating Damages charge referred to in Section 4.27(a) shall be equal to 25%.

5.11 No Broker-Dealer Acknowledgement. Absent a final adjudication from a court of competent jurisdiction stating otherwise, so long as any obligation of Borrower under this Note or the other Transaction Documents is outstanding, the Borrower shall not state, claim, allege, or in any way assert to any person, institution, or entity, that Holder is currently, or ever has been, a broker-dealer under the Securities Exchange Act of 1934.

5.12 Opportunity to Consult with Counsel. The Borrower represents and acknowledges that it has been provided with the opportunity to discuss and review the terms of this Note and the other Transaction Documents with its counsel before signing it and that it is freely and voluntarily signing the Transaction Documents in exchange for the benefits provided herein. In light of this, the Borrower will not contest the validity of Transaction Documents and the transactions contemplated therein. The Borrower further represents and acknowledges that it has been provided a reasonable period of time within which to review the terms of the Transaction Documents.

5.13 Integration. This Note, along with the other Transaction Documents, constitute the entire agreement between the Parties and supersedes all prior negotiations, discussions, representations, or proposals, whether oral or written, unless expressly incorporated herein, related to the subject matter of the Agreement. Unless expressly provided otherwise herein, this Note may not be modified unless in writing signed by the duly authorized representatives of the Borrower and the Holder. If any provision or part thereof is found to be invalid, the remaining provisions will remain in full force and effect. Additionally, Borrower agrees acknowledges that each of the Transaction Documents are integral to the Note, and their execution by Borrower and the agreement by Borrower to be bound by the terms therein are a material condition to the Holders agreement to enter into the transaction contemplated under the Transaction Documents.

5.14 Adjustment for Stock Split. Notwithstanding anything herein to the contrary, all references in this Note to numbers of shares of securities of the Borrower and the prices thereof, shall be appropriately adjusted to reflect any stock split, reverse stock split or stock dividend or other similar change in such securities which may be made by the Borrower after the date of this Agreement, provided however, that in the event that the Borrower effectuates a reverse split of its Common Shares, the reduction to the Fixed Price shall be limited to no greater than the reduction that would occur in the event of a 1-for-15 (1:15) reverse stock split reverse stock split.

[signature page to follow]

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer this December 12, 2023.

BORROWER

Lucy Scientific Discovery Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Terracube International Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Scientific Discovery USA Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

114474 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Retail Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Therapeutic Discoveries Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Manufacturing Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

1438430 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

[*Signature page to Note*]

EXHIBIT A – FORM OF NOTICE OF CONVERSION

(See Attached)

EXHIBIT B – FORM OF TRANSFER AGENT INSTRUCTION LETTER

(See Attached)

EXHIBIT C – SECURITY AND PLEDGE AGREEMENT

(See Attached)

EXHIBIT D – CONFESSION OF JUDGMENT

(See Attached)

EXHIBIT E – PAYMENT SCHEDULE FOR THE FIRST TRANCHE

Date	Interest Payment	Principal Payment	Total Payment
12/12/2023*			-
1/12/2024	$ 2,623.46		$ 2,623.46
2/12/2024	$ 2,623.46		$ 2,623.46
3/12/2024	$ 2,623.46		$ 2,623.46
4/12/2024	$ 2,623.46		$ 2,623.46
5/12/2024	$ 2,623.46		$ 2,623.46
6/12/2024	$ 2,623.46		$ 2,623.46
7/12/2024	$ 2,623.46		$ 2,623.46
8/12/2024	$ 2,623.46		$ 2,623.46
9/12/2024	$ 2,623.46		$ 2,623.46
10/12/2024	$ 2,623.46		$ 2,623.46
11/12/2024	$ 2,623.46		$ 2,623.46
12/12/2024	$ 2,623.46	$ 314,815.56	$ 317,439.02

* Advance Date for the First Tranche

NEITHER THIS SECURITY NOR THE SECURITIES AS TO WHICH THIS SECURITY MAY BE EXERCISED HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON SHARE PURCHASE WARRANT

LUCY SCIENTIFIC DISCOVERY INC.

Warrant Shares: 500,000
Date of Issuance: December 12, 2023 ("**Issuance Date**")

This COMMON SHARE PURCHASE WARRANT (the "Warrant") certifies that, for value received in connection with the issuance of the senior secured convertible promissory note of even date in the principal amount of up to $666,666 (the "**Note**") by Lucy Scientific Discovery Inc., a British Columbia, Canada (the "**Company**"), [_____], a Delaware limited partnership (including any permitted and registered assigns, each a "**Holder**"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date of issuance hereof, to purchase from the Company 500,000 common shares (the "**Warrant Shares**") (whereby such number may be adjusted from time to time pursuant to the terms and conditions of this Warrant) at the Exercise Price per share then in effect. This Warrant is issued by the Company as of the Issuance Date in connection with that certain securities purchase agreement, of even date hereof, by and between the Company and the Holder (the "**Purchase Agreement**").

Capitalized terms used in this Warrant shall have the meanings set forth in the Purchase Agreement unless otherwise defined in the body of this Warrant or in Section 12 below. For purposes of this Warrant, the term "**Exercise Price**" shall mean $0.25, subject to adjustment as provided herein (including but not limited to cashless exercise), and the term "**Exercise Period**" shall mean the period commencing on the Issuance Date and ending on 6:00 p.m. eastern standard time on the five-year anniversary thereof.

1. EXERCISE OF WARRANT.

(a) *Mechanics of Exercise.* Subject to the terms and conditions hereof, the rights represented by this Warrant may be exercised in whole or in part at any time or times during the Exercise Period by delivery of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant. The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. On or before the third Trading Day (the "**Warrant Share Delivery Date**") following the date on which the Company shall have received the Exercise Notice, and upon receipt by the Company of payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which all or a portion of this Warrant is being exercised (the "**Aggregate Exercise Price**" and together with the Exercise Notice, the "**Exercise Delivery Documents**") in cash or by wire transfer of immediately available funds (or by cashless exercise, in which case there shall be no Aggregate Exercise Price provided), the Company shall (or direct its transfer agent to) issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Common Shares to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing such Warrant Shares. If this Warrant is submitted in connection with any exercise and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 6) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised.

If the Company fails to cause its transfer agent to transmit to the Holder the respective Common Shares by the respective Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise in Holder's sole discretion, and such failure shall be deemed an event of default under the Note to the extent the Note remains outstanding and any portion thereof unpaid.

If at any time after the 6 month anniversary of the Issuance Date, the Market Price of one Common Share is greater than the Exercise Price and the Warrant Shares are not registered under an effective non-stale registration statement of the Company, the Holder may elect to receive Warrant Shares pursuant to a cashless exercise, in lieu of a cash exercise, equal to the value of this Warrant determined in the manner described below (or of any portion thereof remaining unexercised) by surrender of this Warrant and a Notice of Exercise, in which event the Company shall issue to Holder a number of Common Shares computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where X = the number of Shares to be issued to Holder.

Y = the number of Warrant Shares that the Holder elects to purchase under this Warrant (at the date of such calculation).

A = the Market Price (at the date of such calculation).

B = Exercise Price (as adjusted to the date of such calculation).

(b) *No Fractional Shares*. No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Warrant Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then-current fair market value of a Warrant Share by such fraction.

(c) *Holder's Exercise Limitations*. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, to the extent that after giving effect to issuance of Warrant Shares upon exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation, as defined below. For purposes of the foregoing sentence, the number of Common Shares beneficially owned by the Holder and its Affiliates shall include the number of Common Shares issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of Common Shares which would be issuable upon (i) exercise of the remaining, non-exercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or non-converted portion of any other securities of the Company (including without limitation any other Common Share Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this paragraph (d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this paragraph applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination.

For purposes of this paragraph, in determining the number of outstanding Common Shares, a Holder may rely on the number of outstanding Common Shares as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or its transfer agent setting forth the number of Common Shares outstanding. Upon the request of a Holder, the Company shall within two Trading Days confirm to the Holder the number of Common Shares then outstanding. In any case, the number of outstanding Common Shares shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its affiliates since the date as of which such number of outstanding Common Shares was reported. The "**Beneficial Ownership Limitation**" shall be 4.99% of the number of Common Shares outstanding immediately after giving effect to the issuance of Common Shares issuable upon exercise of this Warrant. Upon no fewer than 61 days' prior notice to the Company, a Holder may increase or decrease the Beneficial Ownership Limitation provisions of this paragraph and the provisions of this paragraph shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company and shall only apply to such Holder and no other Holder. The limitations contained in this paragraph shall apply to a successor Holder of this Warrant.

2. ADJUSTMENTS. The Exercise Price and the number of Warrant Shares shall be adjusted from time to time as follows:

(a) *Distribution of Assets*. If the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Shares, by way of return of capital or otherwise (including without limitation any distribution of cash, shares or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case:

(i) any Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Shares entitled to receive the Distribution shall be reduced, effective as of the close of business on such record date, to a price determined by multiplying such Exercise Price by a fraction (i) the numerator of which shall be the Closing Sale Price of the Common Shares on the Trading Day immediately preceding such record date minus the value of the Distribution (as determined in good faith by the Company's Board of Directors) applicable to one Common Share, and (ii) the denominator of which shall be the Closing Sale Price of the Common Shares on the Trading Day immediately preceding such record date; and

(ii) the number of Warrant Shares shall be increased to a number of shares equal to the number of Common Shares obtainable immediately prior to the close of business on the record date fixed for the determination of holders of Common Shares entitled to receive the Distribution multiplied by the reciprocal of the fraction set forth in the immediately preceding clause (i); provided, however, that in the event that the Distribution is of Common Shares of a company (other than the Company) whose common stock is traded on a national securities exchange or a national automated quotation system ("Other Shares of Common Stock"), then the Holder may elect to receive a warrant to purchase Other Shares of Common Stock in lieu of an increase in the number of Warrant Shares, the terms of which shall be identical to those of this Warrant, except that such warrant shall be exercisable into the number of Other Shares of Common Stock that would have been payable to the Holder pursuant to the Distribution had the Holder exercised this Warrant immediately prior to such record date and with an aggregate exercise price equal to the product of the amount by which the exercise price of this Warrant was decreased with respect to the Distribution pursuant to the terms of the immediately preceding clause (i) and the number of Warrant Shares calculated in accordance with the first part of this clause (ii).

(b) Proportional Adjustments of Outstanding Common Shares and Common Share Dividends. If the Company shall at any time or from time to time after the date hereof, issue additional Common Shares to all of its current shareholders on a pro rata basis or pay a share dividend in Common Shares, then the Exercise Price shall be proportionately adjusted. Any adjustments under this Section 2(b) shall be effective at the close of business on the date the share split becomes effective or the date of payment of the share dividend, as applicable. Notwithstanding anything to the contrary, in the event that the Borrower effectuates a reverse split of its Common Shares, the reduction to the Exercise Price shall be limited to no greater than the reduction that would occur in the event of a 1-for-15 (1:15) reverse stock split reverse stock split.

(c) Anti-dilution Adjustment. If at any time while this Warrant is outstanding, the Company sells or grants (or has sold or granted, as the case may be) any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues (or has sold or issued, as the case may be, or announces any sale, grant or any option to purchase or other disposition), any Common Share or other securities convertible into, exercisable for or otherwise entitled the any person or entity the right to acquire Common Shares at an effective price per share that is lower than the then Exercise Price (such lower price, the "**Base Exercise Price**" and such issuances, collectively, a "**Dilutive Issuance**") (it being agreed that if the holder of the Common Share or other securities so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive Common Shares at an effective price per share that is lower than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then the Exercise Price shall be reduced to a price equal the Base Exercise Price, and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Share or other securities are issued, provided however, that no adjustment will be made under this Section 2(c) in respect of an Exempt Issuance. For purposes of this Section 2(c), an "**Exempt Issuance**" shall have the meaning ascribed to such term in the Note. In the event of an issuance of securities involving multiple tranches or closings, any adjustment pursuant to this Section 2(c) shall be calculated as if all such securities were issued at the initial closing.

3. FUNDAMENTAL TRANSACTIONS. If, at any time while this Warrant is outstanding, (i) the Company effects any merger of the Company with or into another entity and the Company is not the surviving entity (such surviving entity, the "**Successor Entity**"), (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or by another individual or entity, and approved by the Company) is completed pursuant to which holders of Common Shares are permitted to tender or exchange their Common Shares for other securities, cash or property and the holders of at least 50% of the Common Shares accept such offer, or (iv) the Company effects any reclassification of the Common Shares or any compulsory share exchange pursuant to which the Common Shares are effectively converted into or exchanged for other securities, cash or property (other than as a result of a subdivision or combination of Common Shares) (in any such case, a "**Fundamental Transaction**"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive the number of Common Shares of the Successor Entity or of the Company and any additional consideration (the "**Alternate Consideration**") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a holder of the number of Common Shares for which this Warrant is exercisable immediately prior to such event (disregarding any limitation on exercise contained herein solely for the purpose of such determination). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one Common Share in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Shares are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any Successor Entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration.

4. NON-CIRCUMVENTION. The Company covenants and agrees that it will not, by amendment of its certificate of formation, operating agreement or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any Common Shares receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Common Shares upon the exercise of this Warrant, and (iii) shall, for so long as this Warrant is outstanding, have authorized and reserved, free from preemptive rights, a sufficient number of Common Shares to provide for the exercise of the rights represented by this Warrant (without regard to any limitations on exercise).

5. WARRANT HOLDER NOT DEEMED A SHAREHOLDER. Except as otherwise specifically provided herein, this Warrant, in and of itself, shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a shareholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company.

6. REISSUANCE.

(a) *Lost, Stolen or Mutilated Warrant*. If this Warrant is lost, stolen, mutilated or destroyed, the Company will, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed.

(b) *Issuance of New Warrants*. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant shall be of like tenor with this Warrant, and shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date.

7. TRANSFER.

(a) *Notice of Transfer*. The Holder agrees that, if practicable, but without any obligation to do so, it will give written notice to the Company of its intent to transfer this Warrant or any Warrant Shares, describing briefly the manner of any proposed transfer. Promptly upon receiving such written notice, the Company shall present copies thereof to the Company's counsel. If the proposed transfer may be effected without registration or qualification (under any federal or state securities laws), the Company, as promptly as practicable, shall notify the Holder thereof, whereupon the Holder shall be entitled to transfer this Warrant or to dispose of Warrant Shares received upon the previous exercise of this Warrant, all in accordance with the terms of the notice delivered by the Holder to the Company; provided, however, that an appropriate legend may be endorsed on this Warrant or the certificates for such Warrant Shares respecting restrictions upon transfer thereof necessary or advisable in the opinion of counsel and satisfactory to the Company to prevent further transfers which would be in violation of Section 5 of the Securities Act and applicable state securities laws; and provided further that the prospective transferee or purchaser shall execute the Assignment of Warrant attached hereto as Exhibit B and such other documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company for the transfer or disposition of the Warrant or Warrant Shares.

(b) If the proposed transfer or disposition of this Warrant or such Warrant Shares described in the written notice given pursuant to this Section 7 may not be effected without registration or qualification of this Warrant or such Warrant Shares, the Holder will limit its activities in respect to such transfer or disposition as are permitted by law.

(c) Any transferee of all or a portion of this Warrant shall succeed to the rights and benefits of the initial Holder of this Warrant under Section 5.6 of the Purchase Agreement.

8. NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with the notice provisions contained in the Purchase Agreement. The Company shall provide the Holder with prompt written notice (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, the calculation of such adjustment and (ii) at least 20 days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Shares, (B) with respect to any grants, issuances or sales of any shares or other securities directly or indirectly convertible into or exercisable or exchangeable for Common Shares or other property, pro rata to the holders of Common Shares or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

9. AMENDMENT AND WAIVER. The terms of this Warrant may be amended or waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder.

10. GOVERNING LAW. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Warrant shall be brought only in the state courts or federal courts sitting in Delaware. The parties to this Warrant hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. **THE COMPANY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS WARRANT OR ANY TRANSACTION CONTEMPLATED HEREBY**. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

11. ACCEPTANCE. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

12. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "Nasdaq" means The Nasdaq Stock Market (www.Nasdaq.com).

(b) "Closing Sale Price" means, for any security as of any date, (i) the last closing trade price for such security on the Principal Market, as reported by Nasdaq, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00 p.m., New York time, as reported by Nasdaq, or (ii) if the foregoing does not apply, the last trade price of such security in the over-the-counter market for such security as reported by Nasdaq, or (iii) if no last trade price is reported for such security by Nasdaq, the average of the bid and ask prices of any market makers for such security as reported by the OTC Markets or any other similar domestic or foreign exchange. If the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations to be appropriately adjusted for any share dividend, share split, share combination or other similar transaction during the applicable calculation period.

(c) "Common Share" means the Common Shares of the Company and any other class of securities into which such securities may hereafter be reclassified or changed.

(d) "Common Share Equivalents" means any securities of the Company that would entitle the holder thereof to acquire at any time Common Shares, including without limitation any debt, preferred shares, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Shares.

(e) "Principal Market" means the primary national securities exchange or over the counter market on which the Common Shares are then traded.

(f) "Market Price" means the highest traded price of the Common Shares during the thirty (30) Trading Days prior to the date of the respective Exercise Notice.

(g) "Trading Day" means (i) any day on which the Common Shares are listed or quoted and traded on its Principal Market, (ii) if the Common Shares are not then listed or quoted and traded on any national securities exchange, then a day on which trading occurs on any over-the-counter markets, or (iii) if trading does not occur on the over-the-counter markets, any Business Day.

[*signature page follows*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the Issuance Date set forth above.

LUCY SCIENTIFIC DISCOVERY INC.

/s/ Richard Nanula

Name: Richard Nanula
Title: Chief Executive Officer

EXHIBIT A

EXERCISE NOTICE

(To be executed by the registered holder to exercise this Common Share Purchase Warrant)

THE UNDERSIGNED holder hereby exercises the right to purchase _____ of the Common Shares ("Warrant Shares") of **LUCY SCIENTIFIC DISCOVERY INC.**, a British Columbia, Canada corporation (the "Company"), evidenced by the attached copy of the Common Share Purchase Warrant (the "Warrant"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price. The Holder intends that payment of the Exercise Price shall be made as (check one):

   ☐ a cash exercise with respect to _____ Warrant Shares; or
   ☐ by cashless exercise pursuant to the Warrant.

2. Payment of Exercise Price. If cash exercise is selected above, the holder shall pay the applicable Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

3. Delivery of Warrant Shares. The Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

Date: _____

_____
(Print Name of Registered Holder)

By: _____
Name: _____
Title: _____

EXHIBIT B

ASSIGNMENT OF WARRANT

(To be signed only upon authorized transfer of the Warrant)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto _____ the right to purchase _____ Common Shares of **LUCY SCIENTIFIC DISCOVERY INC.**, to which the within Common Share Purchase Warrant relates and appoints _____, as attorney-in-fact, to transfer said right on the books of Lucy Scientific Discovery Inc. with full power of substitution and re-substitution in the premises. By accepting such transfer, the transferee has agreed to be bound in all respects by the terms and conditions of the within Warrant.

Dated: _____

_____
(Signature) *

_____
(Name)

_____
(Address)

_____
(Social Security or Tax Identification No.)

* The signature on this Assignment of Warrant must correspond to the name as written upon the face of the Common Share Purchase Warrant in every particular without alteration or enlargement or any change whatsoever. When signing on behalf of a corporation, partnership, trust or other entity, please indicate your position(s) and title(s) with such entity.

Exhibit 10.1

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT (the "**Agreement**") is made as of December 12, 2023, by and among **Lucy Scientific Discovery Inc.**, a corporation organized under the laws of the province of British Columbia, Canada ("**LSDI**"), and the undersigned entities, each of which is a subsidiary of LSDI (collectively, the "**Company**"), and **[___]**, a limited partnership organized under the laws of the State of Delaware (the "**Purchaser**").

Recital

A. The Company and the Purchaser are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), and Rule 506(b) promulgated by the United States Securities and Exchange Commission (the "**SEC**") under the Securities Act;

B. The Purchaser desires to purchase from the Company, and the Company desires to issue and sell to the Purchaser, upon the terms and conditions set forth in this Agreement, a Senior Secured Convertible Promissory Note of the Company, in the aggregate principal amount of up to six hundred sixty six thousand six hundred sixty six Dollars ($666,666) (the "**Principal Amount**,") and together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, in the form attached hereto as Exhibit A (the "**Note**"), upon the terms and subject to the limitations and conditions set forth in such Note;

C. The Note carries an original issue discount of sixty six thousand six hundred sixty six Dollars ($66,666) (the "**OID**"), to cover the Purchaser's accounting fees, due diligence fees, monitoring, and/or other transactional costs incurred in connection with the purchase and sale of the Note, which is included in the principal balance of the Note. Thus, the purchase price of the Note shall be six hundred thousand Dollars ($600,000), computed by subtracting the OID from the Principal Amount.

D. Company wishes to issue to the Purchaser, as additional consideration for the purchase of the Note, shares of the Company's common stock (the **"Equity Interest"**) and warrants to purchase shares of the Company's common stock (the "**Warrants**"), both of which are described in, and shall be issued pursuant to, the terms of the Note.

Agreement

Now, Therefore, in consideration of the foregoing, and the representations, warranties, covenants and conditions set forth below, the Company and the Purchaser, intending to be legally bound, hereby agree as follows:

1. Amount and Terms of the Note

1.1 Purchase of the Note. Subject to the terms of this Agreement, for consideration of up to six hundred thousand Dollars ($600,000) in cash (the "**Consideration**") to be paid in one or more tranches by wire transfer to the account of the Company (each, a **"Tranche**") with the first Tranche paid on the Issue Date (as defined in the Note), and the remainder pursuant to the terms described in the Note, the Purchaser agrees to subscribe for and purchase from the Company on the Closing Date (as hereinafter defined), and the Company agrees to issue and sell to the Purchaser, the Note and the Equity Interest. The OID shall be earned upon each Tranche on a pro-rata basis.

1.2 Form of Payment. At the Closing (as hereinafter defined), the Purchaser shall pay the Consideration as set forth in section 1.1 above.

2. Closing and Delivery

2.1 Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note and the Equity Interest, pursuant to this Agreement (the "**Closing Date**") shall be 4:00 PM, Eastern Time on the date first written above, or such other mutually agreed upon time.

2.2 Closing. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall occur on the Closing Date at such location as may be agreed to by the parties (including via exchange of electronic signatures).

2.3 Delivery. At the Closing, or as promptly as commercially reasonable thereafter, in addition to the delivery by the Purchaser of the Consideration and the delivery by the Company to the Purchaser of the Note, Company shall issue and deliver to the Purchaser the Equity Interest.

3. Representations and Warranties of the Company

Except as set forth in the corresponding section of the Disclosure Schedule delivered to the Purchaser concurrently herewith and attached hereto as Schedule I (the "**Disclosure Schedule**") or as disclosed in the Disclosure Materials (as defined below), the Company, its Subsidiaries, Officers, Directors, and Affiliates, hereby makes the following representations and warranties as of the date hereof and as of the Closing Date to the Purchaser:

3.1 Organization, Good Standing and Qualification. The Company and each of its Subsidiaries (as defined below) is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of the Company and its Subsidiaries has the requisite corporate power to own and operate its properties and assets and to carry on its business as now conducted and as proposed to be conducted. The Company and each of its Subsidiaries is duly qualified and is authorized to do business and is in good standing as a foreign corporation in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Subscription Document, (ii) a material adverse effect on the results of operations, assets, business or financial condition of Company and the Subsidiaries, taken as a whole, or (iii) adversely impair the Company's ability to perform in any material respect on a timely basis its obligations under any Subscription Document (any of (i), (ii) or (iii), a "**Material Adverse Effect**").

3.2 Corporate Power. The Company has all requisite corporate power to execute and deliver this Agreement, to issue the Note and the Equity Interest, and to enter into the security and pledge agreement of even date herewith (the "**Security and Pledge Agreement**") in the form of Exhibit B and the other instruments, documents and agreements being entered into at the Closing (each a "**Subscription Document**" and collectively, the "**Subscription Documents**") and to carry out and perform its obligations under the terms of the Subscription Documents.

3.3 Subsidiaries and Affiliates. Section 3.3 of the Disclosure Schedule sets forth a true and correct description of all of the Company's Subsidiaries and Affiliates and the capitalization (including options, warrants and other such equity), pro forma as of the date hereof reflecting all pending acquisitions. For purposes of this Agreement, the term "**Subsidiary**" means, with respect to the Company, any corporation or other entity of which at least a majority of the outstanding shares of stock or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors (or persons performing similar functions) of such corporation or entity (regardless of whether or not at the time, in the case of a corporation, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Company or one or more of its Affiliates and the term "**Affiliate**" means, as to any person (the "**Subject Person**"), any other person that directly or indirectly through one or more intermediaries controls or is controlled by, or is under direct or indirect common control with, the Subject Person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, through representation on such person's board of directors or other management committee or group, by contract or otherwise. All references contained herein to the terms Subsidiary or Affiliate, shall be applicable to all Subsidiaries and Affiliates whether they existed as of the date hereof or were created, acquired, or otherwise came to be included in the foregoing terms subsequent to the date hereof.

3.4 Authorization. All corporate action on the part of the Company, its directors and its stockholders necessary for the authorization of the Subscription Documents and the execution, delivery and performance of all obligations of the Company under the Subscription Documents, including, but not limited to, the issuance and delivery of the Note, the Equity Interest, and the reservation of the equity securities issuable upon conversion of the Note (collectively, the "**Underlying Securities**") has been taken or will be taken prior to the issuance of such Underlying Securities. The Subscription Documents, when executed and delivered by the Company, shall constitute valid and binding obligations of the Company enforceable in accordance with their terms, subject to laws of general application relating to bankruptcy, insolvency, the relief of debtors and, with respect to rights to indemnity, subject to federal and state securities laws. The Underlying Securities, when issued in compliance with the provisions of the Subscription Documents, will be, validly issued, fully paid and non-assessable and free of any liens, encumbrances, security interests or other adverse claim (a "**Lien**") and issued in compliance with all applicable federal and securities laws.

3.5 Governmental Consents. Neither Company nor any Subsidiary is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other foreign, federal, state, local or other governmental authority or other person in connection with the execution, delivery and performance by the Company of the Subscription Documents, other than (a) applicable Blue Sky filings, (b) such as have already been obtained or such exemptive filings as are required to be made under applicable securities laws, (c) such other filings that have been made pursuant to applicable state securities laws and post-sale filings pursuant to applicable state and federal securities laws which the Company undertakes to file within the applicable time periods. Subject to the accuracy of the representations and warranties of the Purchaser set forth in Section 4 hereof, the Company has taken all action necessary to exempt: (i) the issuance and sale of the Note, (ii) the issuance of the Equity Interest, (iii) the issuance of the Underlying Securities upon due conversion of the Note, and (iv) the other transactions contemplated by the Subscription Documents from the provisions of any preemptive rights, stockholder rights plan or other "poison pill" arrangement, any anti-takeover, business combination or control share law or statute binding on the Company or to which the Company or any of its assets and properties may be subject and any provision of the Company's Articles of Incorporation or Bylaws, or other organizational documentation, as the case may be, that is or could reasonably be expected to become applicable to the Purchaser as a result of the transactions contemplated hereby, including without limitation, the issuance of the Note, the Equity Interest, and the Underlying Securities (collectively, the "**Securitie**s") and the ownership, disposition or voting of the Securities by the Purchaser or the exercise of any right granted to the Purchaser pursuant to this Agreement or the other Subscription Documents.

3.6 Compliance with Laws. Neither Company nor any Subsidiary is in violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties, which violation would materially and adversely affect the business, assets, liabilities, financial condition or operations of Company and its Subsidiaries.

3.7 Compliance with Other Instruments. Neither Company nor any of its Subsidiaries is in violation or default of any term of its organizational documents, or of any provision of any mortgage, indenture or contract to which it is a party and by which it is bound or of any judgment, decree, order or writ, other than such violations that would not individually or in the aggregate have a Material Adverse Effect on the Company. Except as set forth in Section 3.7 of the Disclosure Schedule or disclosed in SEC Reports (as defined herein), the execution, delivery and performance of the Subscription Documents, and the consummation of the transactions contemplated by the Subscription Documents will not result in any such violation or be in conflict with, or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, decree, order or writ or an event that results in the creation of any Lien upon any assets of the Company or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization or approval applicable to the Company or any of its Subsidiaries, its business or operations or any of its assets or properties. The sale of the Note and the subsequent issuance of the Underlying Securities are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with.

3.8 Offering. Assuming the accuracy of the representations and warranties of the Purchaser contained in Section 4 hereof, the offer, issue, and sale of Securities are and will be exempt from the registration and prospectus delivery requirements of the Securities Act, and have been registered or qualified (or are exempt from registration and qualification) under the registration, permit, or qualification requirements of all applicable state securities laws. No "bad actor" disqualifying event described in Rule 506(d)(1)(i)-(viii) of the Securities Act (a "**Disqualification Event**") is applicable to the Company or, to the Company's knowledge, any person listed in the first paragraph of Rule 506(d)(1) of the Securities Act, except for a Disqualification Event as to which Rule 506(d)(2)(ii–iv) or (d)(3), is applicable.

3.9 Capitalization. Company has authorized shares as set forth in Section 3.9 of the Disclosure Schedule. All outstanding shares of capital stock are duly authorized, validly issued, fully paid and non-assessable and have been issued in compliance with all applicable securities laws. Except for the Equity Interests and the Underlying Securities or as otherwise listed in Section 3.9 of the Disclosure Schedule, there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any person any right to subscribe for or acquire, any shares of common stock, or contracts, commitments, understandings or arrangements by which Company or any Subsidiary is or may become bound to issue additional shares of common stock, or securities or rights convertible or exchangeable into shares of common stock. Except as set forth in Section 3.9 of the Disclosure Schedule or disclosed in SEC Reports (as defined herein), there are no price based anti-dilution or price adjustment provisions contained in any security issued by Company (or in any agreement providing rights to security holders) and the issue and sale of the Securities will not obligate Company to issue shares of common stock or other securities to any person (other than the Purchaser) and will not result in a right of any holder of Company's securities to adjust the exercise, conversion, exchange or reset price under such securities. Except as set forth in Section 3.9 of the Disclosure Schedule, Company owns, directly or indirectly, all of the capital stock of each Subsidiary free and clear of any Liens, and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights.

3.10 Regulatory Reports; Financial Statements. Except as set forth in Section 3.10 of the Disclosure Schedule, the Company has filed all reports and registration statements required to be filed by it under either (i) the Securities Act and the Exchange Act of 1934, as amended (the "**Exchange Act**"), including pursuant to Section 13(a) or 15(d) of the Exchange Act, or (ii) the Alternative Reporting Standard as offered by OTC Markets Group, for the two years preceding the date hereof (or such shorter period as the Company was required by law to file such material) (the foregoing materials, including the exhibits thereto, being collectively referred to herein as the "**SEC Reports**" and, together with the Disclosure Schedule to this Agreement, the "**Disclosure Materials**"). As of their respective dates, the Disclosure Materials complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, or the Alternative Reporting Standard as applicable, and none of the Disclosure Materials, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except as indicated in Section 3.10 of the Disclosure Schedule or disclosed in SEC Reports (as defined herein), the financial statements of the Company included in the Disclosure Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission or OTC Markets as applicable, with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("**GAAP**"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

3.11 Material Changes. Since the date of the latest financial statements, (i) there has been no event, occurrence or development that, individually or in the aggregate, has had or that could result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting or the identity of its auditors, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or affiliate, except pursuant to existing Company stock-based plans or agreements.

3.12 Litigation. Except as set forth in Section 3.12 of the Disclosure Schedule, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary, or any Executive or Officer of the company, or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "**Action**") which: (i) adversely affects or challenges the legality, validity or enforceability of any of the Subscription Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by governmental authority, or any litigation civil or otherwise, involving the Company or any current or former director or officer of the Company or its Subsidiaries.

3.13 Labor Relations. Neither Company nor any Subsidiary is a party to or bound by any collective bargaining agreements or other agreements with labor organizations. Neither Company nor any Subsidiary has violated in any material respect any laws, regulations, orders or contract terms, affecting the collective bargaining rights of employees, labor organizations or any laws, regulations or orders affecting employment discrimination, equal opportunity employment, or employees' health, safety, welfare, wages and hours. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect.

3.14 Regulatory Permits. Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses, except where the failure to possess such permits would not have or reasonably be expected to result in a Material Adverse Effect ("**Material Permits**"), and neither Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

3.15 Title to Assets. Except as set forth in Section 3.15 of the Disclosure Schedule, Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of Company and the Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by Company and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases of which Company and the Subsidiaries are in compliance.

3.16 Taxes.

(a) Except as otherwise itemized in Section 3.16 of the Disclosure Schedule, Company and its Subsidiaries have timely and properly filed all tax returns required to be filed by them for all years and periods (and portions thereof) for which any such tax returns were due, except where the failure to so file would not have a Material Adverse Effect; all such filed tax returns are accurate in all material respects; the Company has timely paid all taxes due and payable (whether or not shown on filed tax returns), except where the failure to so pay would not have a Material Adverse Effect; there are no pending assessments, asserted deficiencies or claims for additional taxes that have not been paid; the reserves for taxes, if any, reflected in the financial statements are adequate, and there are no Liens for taxes on any property or assets of the Company and any of its Subsidiaries (other than Liens for taxes not yet due and payable); there have been no audits or examinations of any tax returns by any (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental or administrative division, department, agency, commission, instrumentality, official, organization, unit, body or entity) and any court or other tribunal (a "**Governmental Body**"), and the Company or its Subsidiaries have not received any notice that such audit or examination is pending or contemplated; no claim has been made by any Governmental Body in a jurisdiction where the Company or any of its Subsidiaries does not file tax returns that it is or may be subject to taxation by that jurisdiction; to the knowledge of the Company, no state of facts exists or has existed which would constitute grounds for the assessment of any penalty or any further tax liability beyond that shown on the respective tax returns; and there are no outstanding agreements or waivers extending the statutory period of limitation for the assessment or collection of any tax.

(b) Neither the Company nor any of its Subsidiaries is a party to any tax-sharing agreement or similar arrangement with any other Person.

(c) The Company has made all necessary disclosures required by Treasury Regulation Section 1.6011-4. The Company has not been a participant in a "reportable transaction" within the meaning of Treasury Regulation Section 1.6011-4(b).

(d) No payment or benefit paid or provided, or to be paid or provided, to current or former employees, directors or other service providers of the Company will fail to be deductible for federal income tax purposes under Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**").

3.17 Patents and Trademarks. Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights that are necessary or material for use in connection with their respective businesses and which the failure to so have could have or reasonably be expected to result in a Material Adverse Effect (collectively, the "**Intellectual Property Rights**"). Neither Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by Company or any Subsidiary violates or infringes upon the rights of any Person. All such Intellectual Property Rights are enforceable. Company and its Subsidiaries have taken reasonable steps to protect Company's and its Subsidiaries' rights in their Intellectual Property Rights and confidential information (the "**Confidential Information**"). Each employee, consultant and contractor who has had access to Confidential Information which is necessary for the conduct of Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted has executed an agreement to maintain the confidentiality of such Confidential Information and has executed appropriate agreements that are substantially consistent with the Company's standard forms thereof. Except under confidentiality obligations, there has been no material disclosure of any of Company's or its Subsidiaries' Confidential Information to any third party.

3.18 Environmental Matters. Neither Company nor any Subsidiary is in violation of any statute, rule, regulation, decision or order of any Governmental Body relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "**Environmental Laws**"), owns or operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws, which violation, contamination, liability or claim has had or could reasonably be expected to have a Material Adverse Effect, individually or in the aggregate; and there is no pending or, to the Company's knowledge, threatened investigation that might lead to such a claim.

3.19 Insurance. Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which Company and the Subsidiaries are engaged. Neither Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

3.20 Transactions with Affiliates and Employees. Except as disclosed in the Company's unaudited financial statements or the Disclosure Materials, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, other than (a) for payment of salary or consulting fees for services rendered, (b) reimbursement for expenses incurred on behalf of the Company and (c) for other employee benefits, including stock option agreements under any stock option plan of Company.

3.21 Brokers and Finders. Except as otherwise itemized in Section 3.21 of the Disclosure Schedule, no person will have, as a result of the transactions contemplated by the Subscription Documents, any valid right, interest or claim against or upon Company, any Subsidiary or the Purchaser for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of the Company.

3.22 Questionable Payments. Neither Company nor any of its Subsidiaries nor, to the Company's knowledge, any of their respective current or former stockholders, directors, officers, employees, agents or other persons acting on behalf of Company or any Subsidiary, has on behalf of Company or any Subsidiary or in connection with their respective businesses: (a) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (b) made any direct or indirect unlawful payments to any governmental officials or employees from corporate funds; (c) established or maintained any unlawful or unrecorded fund of corporate monies or other assets; (d) made any false or fictitious entries on the books and records of Company or any Subsidiary; or (e) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature.

3.23 Solvency. The Company has not (a) made a general assignment for the benefit of creditors; (b) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by its creditors; (c) suffered the appointment of a receiver to take possession of all, or substantially all, of its assets; (d) suffered the attachment or other judicial seizure of all, or substantially all, of its assets; (e) admitted in writing its inability to pay its debts as they come due; or (f) made an offer of settlement, extension or composition to its creditors generally.

3.24 Foreign Corrupt Practices Act. None of Company or any of its Subsidiaries, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company or any of its Subsidiaries, has, directly or indirectly: (a) used any funds, or will use any proceeds from the sale of the Securities, for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (b) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (c) failed to disclose fully any contribution made by Company or any of its Subsidiaries (or made by any person acting on their behalf of which the Company is aware) or any members of their respective management which is in violation of any legal requirement, or (d) has violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder which was applicable to Company or any of its Subsidiaries.

3.25 Disclosures. Neither the Company nor any person acting on its behalf has provided the Purchaser or its agents or counsel with any information that constitutes or might constitute material, non-public information, other than the terms of the transactions contemplated hereby. The written materials delivered to the Purchaser in connection with the transactions contemplated by the Subscription Documents do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

3.26 Transfer Agent. Company represents and warrants that it will not replace its transfer agents without Purchaser's permission so long as the Note is outstanding. Company acknowledges that this is extremely material to the Note and the investment is made based on the assumption that this will not happen.

3.27 Shell Company Status. Set forth in Schedule 3.27 of the Disclosure Schedule is the Company's representation as to its "Shell Company" status under Rule 144.

3.28 Notice of Material Changes. The Company agrees and acknowledges that so long as any obligations of the Company under any of the Subscription Documents shall exist, it shall be obligated to provide Notice to the Purchaser in the event of a material change to any representation or disclosure in any of the Subscription Documents, including but not limited to, the disclosures on the Disclosure Schedule, and failure to provide such notice shall be a breach of this Agreement and an Event of Default under Section 4.3 of the Note.

4. Representations and Warranties of the Purchaser

4.1 Purchase for Own Account. The Purchaser represents that it is acquiring the Note for its own account.

4.2 Information and Sophistication. Without lessening or obviating the representations and warranties of the Company set forth in Section 3, the Purchaser hereby: (a) acknowledges that it has received all the information it has requested from the Company and it considers necessary or appropriate for deciding whether to acquire the Note, (b) represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Note and to obtain any additional information necessary to verify the accuracy of the information given the Purchaser and (c) further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

4.3 Ability to Bear Economic Risk. The Purchaser acknowledges that investment in the Note involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Note for an indefinite period of time and to suffer a complete loss of its investment.

4.4 Accredited Investor Status. The Purchaser is an "accredited investor" as such term is defined in Rule 501 under the Act.

4.5 Existence; Authorization. The Purchaser is a limited liability company duly organized, validly existing and in good standing under the laws of the state of its organization, having full power and authority to own its properties and to carry on its business as conducted. The principal place of business of the Purchaser is as shown on the Accredited Investor Questionnaire. The Purchaser has the requisite power and authority to deliver this Agreement, perform its obligations set forth herein, and consummate the transactions contemplated hereby. The Purchaser has duly executed and delivered this Agreement and has obtained the necessary authorization to execute and deliver this Agreement and to perform his, her or its obligations herein and to consummate the transactions contemplated hereby. This Agreement, assuming the due execution and delivery hereof by the Company, is a legal, valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with its terms.

4.6 No Regulatory Approval. The Purchaser understands that no state or federal authority has scrutinized this Agreement or the Note offered pursuant hereto, has made any finding or determination relating to the fairness for investment in the Note, or has recommended or endorsed the Note, and that the Note has not been registered or qualified under the Act or any state securities laws, in reliance upon exemptions from registration thereunder. The Note may not, in whole or in part, be resold, transferred, assigned or otherwise disposed of unless it is registered under the Act or an exemption from registration is available, and unless the proposed disposition is in compliance with the restrictions on transferability under federal and state securities laws.

4.7 Purchaser Received Independent Advice. The Purchaser confirms that the Purchaser has been advised to consult with the Purchaser's independent attorney regarding legal matters concerning the Company and to consult with independent tax advisers regarding the tax consequences of investing in the Company. The Purchaser acknowledges that Purchaser understands that any anticipated United States federal or state income tax benefits may not be available and, further, may be adversely affected through adoption of new laws or regulations or amendments to existing laws or regulations. The Purchaser acknowledges and agrees that the Company is providing no warranty or assurance regarding the ultimate availability of any tax benefits to the Purchaser by reason of the subscription.

4.8 Legends. The Purchaser understands that until such time as the Note and upon the conversion of the Note in accordance with its respective terms, the Underlying Securities, have been registered under the Securities Act or may be sold pursuant to Rule 144, Rule 144A under the Securities Act or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Securities may bear a restrictive legend in substantially the following form (and a stop- transfer order may be placed against transfer of the certificates for such Securities):

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE OR EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE PURCHASER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144, RULE 144A OR REGULATION S UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

5. Further Agreements; Post-Closing Covenants

5.1 Warrant. Upon the advance of the Consideration by Purchaser to the Company, Company shall issue to Purchaser the Warrants as defined in the Note.

5.2 Equity Interest. Upon the advance of the Consideration by Purchaser to the Company, the Company shall issue to Purchaser the Equity Interest, as defined in the Note.

5.3 Use of Proceeds. Company agrees to use the proceeds of the transaction contemplated hereby solely as described in the Note.

5.4 Form D; Blue Sky Laws. Company agrees to file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof to the Purchaser promptly after such filing. Company shall take such action as Company shall reasonably determine is necessary to qualify the Securities for sale to the Purchaser at the applicable closing pursuant to this Agreement under applicable securities or "blue sky" laws of the states of the United States (or to obtain an exemption from such qualification), and shall provide evidence of any such action so taken to the Purchaser on or prior to the initial closing.

5.5 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any action or proceeding that may be brought by the Purchaser in order to enforce any right or remedy under the Note. Notwithstanding any provision to the contrary contained in the Note, it is expressly agreed and provided that the total liability of the Company under the Note for payments which under Delaware law are in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "**Maximum Rate**"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums which under Delaware law in the nature of interest that the Company may be obligated to pay under the Note exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by Delaware law and applicable to the Note is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Note from the effective date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to the Purchaser with respect to indebtedness evidenced by the Note, such excess shall be applied by the Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, the manner of handling such excess to be at the Purchaser's election.

5.6 Registration and Qualification Rights. Purchaser shall have the registration rights and qualification described in Section 3.13 of the Note.

5.7 Legal Counsel Opinions. Upon the request of the Purchaser from to time to time, Company shall be responsible (at its cost) for promptly supplying to Company's transfer agent and the Purchaser a customary legal opinion letter of its counsel (the "**Legal Counsel Opinion**") to the effect that the resale of the Underlying Securities by the Purchaser or its affiliates, successors and assigns is exempt from the registration requirements of the 1933 Act pursuant to Rule 144 (provided the requirements of Rule 144 are satisfied and provided the Underlying Securities are not then registered under the 1933 Act for resale pursuant to an effective registration statement). Should Company's legal counsel fail for any reason to issue the Legal Counsel Opinion, the Purchaser may (at Company's cost) secure another legal counsel to issue the Legal Counsel Opinion, and Company will instruct its transfer agent to accept such opinion. Company shall not impede the removal by its stock transfer agent of the restricted legend from any common stock certificate upon receipt by the transfer agent of a Rule 144 Opinion Letter.

5.8 Listing. The Company will, so long as the Purchaser owns any of the Securities, maintain its listing or quotation of its common stock on the Nasdaq Global Market, the Nasdaq Capital Market, the New York Stock Exchange, or the NYSE MKT or an equivalent U.S. replacement exchange, and will comply in all respects with Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority, or FINRA, and such exchanges, as applicable, as well as with the SEC, and will timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by Company pursuant to the Exchange Act. Company shall promptly provide to the Purchaser copies of any notices it receives from the NASDAQ, NYSE and any other exchanges or electronic quotation systems on which the common stock is then traded regarding the continued eligibility of the common stock for listing on such exchanges and quotation systems.

5.9 Information and Observer Rights.

(a) As long as the Purchaser owns at least five percent (5%) of the Securities originally purchased hereunder, Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by Company pursuant to the Exchange Act. As long as the Purchaser owns at least five percent (5%) of the Securities originally purchased hereunder, if Company is not required to file reports pursuant to such laws, it will prepare and furnish to the Purchaser and simultaneously make publicly available in accordance with Rule 144(c) such information as is required for the Purchaser to sell the Securities under Rule 144. Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable the Purchaser to sell the Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144. If the Company fails to remain a fully reporting company subject to the reporting requirements of the Exchange Act, or the Company fails to remain current in its reporting obligations or to provide currently publicly available information in accordance with Rule 144(c) and such failure extends for a period of more than fifteen Trading Days (the date which such fifteen Trading Day-period is exceeded, being referred to as "**Event Date**"), then in addition to any other rights the Purchaser may have hereunder or under applicable law, on each such Event Date and on each monthly anniversary of each such Event Date (if the applicable Event shall not have been cured by such date) until the information failure is cured, Company shall pay to the Purchaser an amount in cash, as partial liquidated damages and not as a penalty, equal to one percent (1%) of purchase price paid for the Securities held by the Purchaser at the Event Date. The partial liquidated damages pursuant to the terms hereof shall apply on a daily pro-rata basis for any portion of a month prior to the cure of an information failure (except in the case of the first Event Date).

(b) Board Appointment Right. Concurrent with the Closing, Purchaser shall have the right to the following: At Purchaser's request, the Board of Directors of the Company shall (A) increase the number of members of the Board of Directors of the Company (the "Board") by two (2) and (B) appoint as the two new member of the Board, Purchaser or its designee(s) by the action of the Board and without a shareholder vote, provided that such appointment would not otherwise result in the Company not being in compliance with the continued listing standards of the NASDAQ Capital Market, and further provided that the exercise of such appointment right would not result in the Purchaser or its designee(s) becoming an "affiliate" as such term is defined in Rule 405 of the Securities Act of 1933, as amended. So long as the Purchaser holds any of the Securities offered hereunder, the foregoing right of the Purchaser to require Company to appoint Purchaser and/or its designees as members of the Board, shall be applicable to a number of members of the Board that comprise a minimum of 25% of the total members of the Board after the appointment.

(c) As long as the Purchaser owns at least five percent (5%) of the Securities, if the Purchaser notifies Company that it wishes to attend meetings of Company's Board of Directors, Company shall invite a designated representative of the Purchaser to attend all meetings of Company's Board of Directors in a nonvoting observer capacity and, in this respect, and subject to the Purchaser's having informed Company that it wishes to attend, Company shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust and to act in a fiduciary manner with respect to all information so provided; and provided further, that Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between Company and its counsel or result in disclosure of trade secrets or a conflict of interest.

5.10 Confidentiality. The Purchaser agrees that the it will keep confidential and will not disclose, divulge, or use for any purpose (other than to monitor its investment in the Company) the terms and conditions of this Agreement or any confidential information obtained from the Company pursuant to the terms of this Agreement (including notice of Company's intention to file a registration statement), unless such confidential information (a) is known or becomes known to the public in general (other than as a result of a breach of this Section 5.10 by the Purchaser), (b) is or has been independently developed or conceived by the Purchaser without use of the Company's confidential information, or (c) is or has been made known or disclosed to the Purchaser by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Purchaser may disclose confidential information (i) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company; (ii) to any prospective purchaser of any Securities from the Purchaser, if such prospective purchaser agrees to be bound by the provisions of this Section 5.10; (iii) to any existing or prospective affiliate, partner, member, stockholder, or wholly owned subsidiary of the Purchaser in the ordinary course of business, provided that the Purchaser informs such person that such information is confidential and directs such person to maintain the confidentiality of such information; or (iv) as may otherwise be required by law, provided that the Purchaser notifies the Company within three (3) business days of such disclosure and takes reasonable steps to minimize the extent of any such required disclosure.

5.11 Intentionally Omitted.

5.12 Intentionally Omitted.

5.13 Intentionally Omitted.

5.14 Intentionally Omitted.

5.15 Intentionally Omitted.

5.16 Intentionally Omitted.

5.17 Breach of Covenants. The Company acknowledges and agrees that if the Company breaches any covenants set forth in this Section, in addition to any other remedies available to the Purchaser pursuant to this Agreement, it will be considered an Event of Default under Section 4.3 of the Note.

5.18 Transfer Agent Instructions. Concurrently with the execution of an agreement to engage the services of a transfer agent, Company shall issue irrevocable instructions to Company's transfer agent to issue certificates, registered in the name of the Purchaser or its nominee, upon issuance of Underlying Securities, in such amounts as specified from time to time by the Purchaser to Company in accordance with the terms thereof (the "**Irrevocable Transfer Agent Instructions**"). In the event that Company proposes to replace its transfer agent, Company shall provide, **prior** to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to this Agreement (including but not limited to the provision to irrevocably reserved shares of common stock in the Reserved Amount (as defined in the Note)) signed by the successor transfer agent to Company and Company. Prior to registration of the Underlying Securities under the Securities Act or the date on which the Underlying Securities may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold, all such certificates shall bear the restrictive legend specified in Section 4.8 of this Agreement. Company warrants that: (i) no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5.18 will be given by Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent not to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for Securities to be issued to the Purchaser upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Securities issued to the Purchaser upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement and (iv) it will provide any required corporate resolutions and issuance approvals to its transfer agent within one (1) business day of each conversion of the Note. Nothing in this Section shall affect in any way the Purchaser's obligations and agreement set forth in Section 5.6 hereof to comply with all applicable prospectus delivery requirements, if any, upon re-sale of the Securities. If the Purchaser provides Company, at the cost of Company, with reasonable assurances that a public sale or transfer of such Securities may be made without registration under the Securities Act or that the Securities can be sold pursuant to Rule 144, Company shall permit the transfer, and, in the case of the Securities, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Purchaser. Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Purchaser, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, Company acknowledges that the remedy at law for a breach of its obligations under this Section 5.18 may be inadequate and agrees, in the event of a breach or threatened breach by Company of the provisions of this Section, that the Purchaser shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

5.19 Further Assurances. The Purchaser agrees and covenants that at any time and from time to time it will execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require within three (3) business days of any such request in order to carry out the full intent and purpose of this Agreement and to comply with state or federal securities laws or other regulatory approvals.

5.20 Exchange Act Reporting. At all times after the Company becomes subject to and fully compliant with the SEC reporting requirements under the Exchange Act, it shall be an event of default under the Note and this Agreement if the Company fails to maintain such fully reporting status (including but not limited to becoming delinquent in its filings).

5.21 Shareholder Approval. "Shareholder Approval" means the approval of the holders of a majority of the Company's outstanding voting Common Stock, to effectuate the transactions contemplated by this Agreement, including the issuance of all of the Common Stock underlying the Note, Common Stock underlying the Warrants, and the Equity Interest shares, in excess of 19.99% of the issued and outstanding Common Stock on the Closing Date (the "Exchange Cap"). The Exchange Cap is equal to 3,528,235 shares of Common Stock (subject to appropriate adjustment for any stock dividend, stock split, stock combination, rights offerings, reclassification or similar transaction that proportionately decreases or increases the Common Stock). The Company shall hold a special meeting of shareholders on or before the earlier of (i) the date that is sixty (60) calendar days after an Event of Default (as defined in the Note) occurs or (ii) the date that is sixty (60) calendar days after the first date (after the date of this Agreement) that the Common Stock trades on the Principal Market at a price per share less than $1.00 (subject to appropriate adjustment for any stock dividend, stock split, stock combination, rights offerings, reclassification or similar transaction that proportionately decreases or increases the Common Stock), for the purpose of obtaining Shareholder Approval, with the recommendation of the Company's Board of Directors that such proposal be approved, and the Company shall solicit proxies from its shareholders in connection therewith in the same manner as all other management proposals in such proxy statement and all management-appointed proxyholders shall vote their proxies in favor of such proposal. The Company shall use its reasonable best efforts to obtain such Shareholder Approval. If the Company does not obtain Shareholder Approval at the first meeting, the Company shall call a meeting as often as possible thereafter to seek Shareholder Approval until the Shareholder Approval is obtained. Until such approval is obtained, the Purchaser shall not be issued in the aggregate, pursuant to this Agreement or upon conversion or exercise, as applicable, of the Note or the Warrants, shares of Common Stock in an amount greater than the product of the Exchange Cap multiplied by a fraction, the numerator of which is the purchase price paid by such Buyer pursuant to this Agreement on the Closing Date and the denominator of which is the aggregate purchase price paid by the Purchaser for the Note (with respect to each of the February 2023 Buyers, the "Exchange Cap Allocation"). In the event that any Buyer shall sell or otherwise transfer any of the Note, the Warrants, or the Equity Interest Shares, the transferee shall be allocated a pro rata portion of such Buyer's Exchange Cap Allocation, and the restrictions of the prior sentence shall apply to such transferee with respect to the portion of the Exchange Cap Allocation allocated to such transferee. In the event that any holder of the Note or the Warrants shall convert or exercise all of such holder's Note or the Warrants into a number of shares of Common Stock which, in the aggregate, is less than such holder's Exchange Cap Allocation, then the difference between such holder's Exchange Cap Allocation and the number of shares of Common Stock actually issued to such holder shall be allocated to the respective Exchange Cap Allocations of the remaining holders of the Note and the Warrants on a pro rata basis in proportion to the aggregate principal amount of Note then held by each such holder.

6. Conditions to the Company's Obligation to Sell

The obligation of the Company hereunder to issue and sell the Note to the Purchaser at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

(a) The Purchaser shall have executed this Agreement and delivered the same to the Company.

(b) The Purchaser shall have delivered the Consideration in accordance with Section 1.2 above.

(c) The representations and warranties of the Purchaser shall be true and correct in all material respects as of the date when made and as of the Closing Date, as though made at that time (except for representations and warranties that speak as of a specific date), and the Purchaser shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Purchaser at or prior to the Closing Date.

(d) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. Conditions to The Purchaser's Obligation to Purchase

The obligation of the Purchaser hereunder to purchase the Note, on the Closing Date, is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in its sole discretion:

(a) The Company shall have executed this Agreement and delivered the same to the Purchaser.

(b) The Company shall have delivered to the Purchaser the duly executed Note in such denominations as the Purchaser shall request and in accordance with Section 1.2 above.

(c) Company shall have delivered to the Purchaser the Equity Interest.

(d) Company shall have delivered executed Subscription Documents, or such other instruments as contemplated by this Agreement.

(e) Company shall have provided to Purchaser the necessary documents to enable Purchaser to perfect its first priority security in the shares and other equity interests owned by Company, contemporaneously with the date of this Agreement.

(f) The Company has provided the Purchaser with a current schedule of liabilities and the results of a current certified UCC.

(g) Intentionally Omitted.

(h) The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of Closing Date, as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date.

(i) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(j) No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the Exchange Act reporting status of the Company or the failure of the Company to be timely in its Exchange Act reporting obligations.

(k) Company shall have delivered to the Purchaser (i) a certificate evidencing the formation and good standing of Company and each of its Subsidiaries in such entity's jurisdiction of formation issued by the Secretary of State (or comparable office) of such jurisdiction, as of a date within ten (10) days of the Closing Date; (ii) resolutions adopted by the Company's Board of Directors at a duly called meeting or by unanimous written consent authorizing this Agreement and all other documents, instruments and transactions contemplated hereby; and (iii) lien searches for Company dated within ten (10) days of the Closing Date and again as of the Closing Date.

(l) Intentionally Omitted.

(m) Company shall have delivered to Purchaser confessions of judgment executed by the Company, in form and substance satisfactory to Purchaser.

8. MISCELLANEOUS

8.1 Binding Agreement. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, expressed or implied, is intended to confer upon any third party any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

8.2 Governing Law; Consent to Jurisdiction. This Agreement shall be governed by and construed under the laws of the State of Delaware, without giving effect to conflicts of laws principles. Each party to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Delaware for the adjudication of any dispute hereunder or in connection with any transaction contemplated hereby, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Company irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Documents by being mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to the Borrower at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. All transactions contemplated herein are made subject to the rules of Iska as found on [Purchaser]'s website ([____]).

8.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

8.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.5 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company and to the Purchaser at the addresses set forth in the Note or at such other addresses as the Company or Purchaser may designate by 10 days' advance written notice to the other parties hereto.

8.6 Modification; Waiver. No modification or waiver of any provision of this Agreement or consent to departure therefrom shall be effective only upon the written consent of the Company and the Purchaser. Any provision of the Note may be amended or waived by the written consent of the Company and the Purchaser.

8.7 Expenses. The Company and the Purchaser shall each bear its respective expenses and legal fees incurred with respect to this Agreement and the transactions contemplated herein; provided, however, that the Purchaser may retain certain amounts of the Consideration as described in the Note, to cover its expenses incurred in connection with this Agreement and the transactions contemplated hereby.

8.8 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power or remedy accruing to the Purchaser, upon any breach or default of the Company under the Subscription Documents shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach or default, or any acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. It is further agreed that any waiver, permit, consent or approval of any kind or character by Purchaser of any breach or default under this Agreement, or any waiver by any Purchaser of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in writing and that all remedies, either under this Agreement, or by law or otherwise afforded to the Purchaser, shall be cumulative and not alternative.

8.9 Entire Agreement. This Agreement and the Exhibits hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein.

8.10 Severability. Any part, provision, representation or warranty of this Agreement which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall be ineffective, as to such jurisdiction, to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereto waive any provision of law which prohibits or renders void or unenforceable any provision hereof. If the invalidity of any part, provision, representation or warranty of this Agreement shall deprive any party of the economic benefit intended to be conferred by this Agreement, the parties shall negotiate, in good-faith, to develop a structure the economic effect of which is as close as possible to the economic effect of this Agreement without regard to such invalidity.

[*Signature page follows*]

In Witness Whereof, the parties have executed this **Securities Purchase Agreement** as of the date first written above.

COMPANY:

Lucy Scientific Discovery Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Terracube International Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Scientific Discovery USA Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

114474 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Retail Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Therapeutic Discoveries Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Manufacturing Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

1438430 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

PURCHASER:

[_____]

by its Manager, [_____]

By: /s/ Investor
Name: [_____]
Title: Manager

[*Securities Purchase Agreement – Signature page*]

SCHEDULE I
Disclosure Schedule

(SEE ATTACHED)

EXHIBIT A

FORM OF CONVERTIBLE PROMISSORY NOTE

(SEE ATTACHED)

EXHIBIT B

FORM OF SECURITY AND PLEDGE AGREEMENT

(SEE ATTACHED)

Exhibit 10.2

PLEDGE AND SECURITY AGREEMENT

This PLEDGE AND SECURITY AGREEMENT (the "**Agreement**") is made and entered into on December 12, 2023, by and between **Lucy Scientific Discovery Inc.**, a corporation organized under the laws of the province of British Columbia, Canada ("**LSDI**"), and the undersigned entities, each of which is a subsidiary of LSDI (collectively, the "**Debtor**") and **[___]**, a limited partnership organized under the laws of the State of Delaware, and its permitted endorsees, transferees and assigns (collectively, the "**Secured Party**").

RECITALS

A. Concurrently herewith, Debtor and the Secured Party have entered into a Securities Purchase Agreement (the "**Securities Purchase Agreement**") and certain other agreements, pursuant to which the Debtor issued that certain senior secured convertible promissory note (the "**Note**") in the principal amount of up to Six Hundred Thousand Six Hundred Sixty Six Dollars ($666,666) to the Secured Party.

B. The Debtor now enters into this Agreement with the Secured Party as security for Debtor's Obligations (as defined below).

AGREEMENT

NOW, THEREFORE, in consideration of their respective promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Definitions**. Terms used but not otherwise defined in this Agreement that are defined in Article 9 of the Uniform Commercial Code as adopted in the state of Delaware (the "**UCC**") (such as "**account**," "**adverse claim**," "**chattel paper**," "**deposit account**," "**document**," "**equipment**," "**fixtures**," "**general intangibles**," "**goods**," "**instruments**," "**inventory**," "**investment property**," "**proceeds**," and "**supporting obligations**") shall have the respective meanings given such terms in Article 9 of the UCC. Capitalized terms used in this Agreement and not defined elsewhere herein or in the Securities Purchase Agreement shall have the meanings set forth below:

*"**Collateral**"* means all of the collateral identified on Exhibit A hereto.

*"**Debtor's Books**"* means and includes all of Debtor's books and records in any medium or form, including, but not limited to, all records, ledgers and computer programs, disk or tape files, thumb drives, material stored in the "cloud," printouts and other information indicating, summarizing or evidencing the Collateral.

"***Equity Interests***" means, with respect to any person, all of the shares of capital stock of (or other ownership or profit interests in) such person, all of the warrants, options or other rights for the purchase or acquisition from such person of shares of capital stock of (or other ownership or profit interests in) such person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such person or warrants, rights or options for the purchase or acquisition from such person of such shares (or such other interests), and all of the other ownership or profit interests in such person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

*"**Event of Default**"* has the meaning specified in Section 6 of this Agreement.

*"**Negotiable Collateral**"* means and includes all of Debtor's presently existing and hereafter acquired or arising letters of credit, advices of credit, promissory notes, drafts, instruments, documents, Equity Interests in any entity, leases of personal property and chattel paper, as well as Debtor's Books relating to any of the foregoing.

*"**Obligations**"* means and includes any and all present or future indebtedness or obligations of Debtor owing to the Secured Party under the Note and the other Subscription Documents, as defined herein, including, without limitation, (i) all interest and other payments required thereunder that are not paid when due, and (ii) all of the Secured Party Expenses which Debtor is required to pay or reimburse by this Agreement, by law, or otherwise.

*"**Permitted Liens**"* means (i) statutory liens of landlords and liens of carriers, warehousemen, bailees, mechanics, materialmen and other like liens imposed by law, created in the ordinary course of business and securing amounts not yet due (or which are being contested in good faith, by appropriate proceedings or other appropriate actions which are sufficient to prevent imminent foreclosure of such liens), and with respect to which adequate reserves or other appropriate provisions are being maintained by Debtor in accordance with generally accepted accounting principles ("**GAAP**") , (ii) deposits made (and the liens thereon) in the ordinary course of business of Debtor (including, without limitation, security deposits for leases, indemnity bonds, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, contracts (other than for the repayment or guarantee of borrowed money or purchase money obligations), statutory obligations and other similar obligations arising as a result of progress payments under government contracts, (iii) liens for taxes not yet due and payable or which are being contested in good faith and with respect to which adequate reserves are being maintained by Debtor in accordance with GAAP, (iv) purchase money liens relating to the acquisition of equipment, machinery or other goods of Debtor approved in writing by the Secured Party (which approval shall not be unreasonably withheld, conditioned or delayed) and (v) liens in favor of the Secured Party under the Subscription Documents.

"***Pledged Equity***" means, with respect to Debtor, 100% of the issued and outstanding Equity Interests of any subsidiary that is directly owned by Debtor, whether now owned or hereafter acquired, in each case together with the certificates (or other agreements or instruments), if any, representing such shares, and all options and other rights, contractual or otherwise, with respect thereto, including, but not limited to, the following:

(1) all Equity Interests representing a dividend thereon, or representing a distribution or return of capital upon or in respect thereof, or resulting from a stock split, revision, reclassification or other exchange therefor, and any subscriptions, warrants, rights or options issued to the holder thereof, or otherwise in respect thereof; and

(2) in the event of any consolidation or merger involving the issuer thereof and in which such issuer is not the surviving person, all shares of each class of the Equity Interests of the successor person formed by or resulting from such consolidation or merger, to the extent that such successor person is a direct subsidiary of an Debtor.

The term "Pledged Equity" specifically includes, but is not limited to, all rights of Debtor embodied in or arising out of the Debtor's status as a shareholder or member, consisting of: (a) all economic rights, including without limitation, all rights to share in the profits and losses and all rights to receive distributions of the assets; and (b) all governance rights, including without limitation, all rights to vote, consent to action and otherwise participate in the management.

For avoidance of doubt, nothing in this Security Agreement, or the other Subscription Documents, shall restrict the Debtor from consummating the Merger (as defined in the Note), and any shares transferred by the Debtor pursuant to the Merger, shall be excluded from the term Pledged Equity after such transfer.

*"**Secured Party Expenses**"* means and includes (i) all costs or expenses required to be paid by Debtor under this Agreement that are instead paid or advanced by the Secured Party, including without limitation, all taxes, insurance, satisfaction of liens, securities interests, encumbrances or other claims at any time levied or placed on the Collateral, (ii) all reasonable costs and expenses incurred to correct any default or enforce any provision of this Agreement, or in gaining possession of, maintaining, disabling, handling, preserving, storing, shipping, selling, preparing for sale or advertising to sell all or any part of the Collateral, irrespective of whether a sale is consummated, and (iii) all reasonable costs and expenses (including reasonable attorney's fees) incurred by the Secured Party in enforcing or defending this Agreement, irrespective of whether suit is brought.

"*Subscription Documents*" means and includes the Note, Securities Purchase Agreement and all related documents executed in connection therewith, including, without limitation, any amendments to any of the foregoing.

2. **Construction**. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and vice versa, to the part include the whole, "including" is not limiting, and "or" has the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section references are to this Agreement, unless otherwise specified.

3. **Creation of Security Interest**. In order to secure Debtor's timely payment of the Obligations and timely performance of each and all of its covenants and obligations under this Agreement, the Subscription Documents, and any other document, instrument or agreement executed by Debtor or delivered by Debtor to the Secured Party in connection with the Obligations, Debtor hereby unconditionally and irrevocably grants, pledges and hypothecates to the Secured Party a continuing security interest in and to, a lien upon, assignment of, and right of set-off against, all presently existing and hereafter acquired or arising Collateral. Such security interest shall be a first priority security interest. Such security interest shall attach to all Collateral without further act on the part of the Secured Party or Debtor.

4. **Filings; Further Assurances**.

(a) General. The Secured Party is authorized to file a UCC-1 Financing Statement (or its equivalent) with the Secretary of State of the State of Delaware and in any other jurisdictions where the Secured Party chooses to file, with respect to the Debtor. Debtor also authorizes the filing by the Secured Party of such other UCC financing statements, continuation financing statements, fixture filings, filing appropriate notices in international or federal registries including the United States Patent and Trademark Office, security agreements, mortgages, deeds of trust, chattel mortgages, assignments, assignments of rents, motor vehicle lien acknowledgments and other documents as the Secured Party may reasonably require in order to perfect, maintain, protect or enforce its security interest in the Collateral or any portion thereof and in order to fully consummate all of the transactions contemplated under this Agreement. Subject to the foregoing, if so requested by the Secured Party at any time hereafter, Debtor shall promptly execute and deliver to the Secured Party such fixture filings, agreements, security agreements, mortgages, deeds of trust, chattel mortgages, assignments, motor vehicle lien acknowledgments and other documents as the Secured Party may reasonably require from such Debtor in order to perfect, maintain, protect or enforce its rights under this Agreement. Debtor shall promptly deliver to the Secured Party any and all certificates and instruments constituting the Pledged Equity in suitable form for transfer by delivery and accompanied by duly executed instruments of transfer or assignment in blank. Debtor hereby irrevocably makes, constitutes and appoints the Secured Party as such Debtor's true and lawful attorney with power, upon Debtor's failure or refusal to promptly comply with its obligations in this Section 4(a), to sign the name of Debtor on any of the above-described documents or on any other similar documents which need to be executed, recorded or filed in order to perfect, maintain, protect or enforce the Secured Party's security interest in the Collateral. Debtor further agrees to enter into such control agreements with the Secured Party and such third parties as may be necessary to obtain a first priority security interest in the Collateral, including deposit accounts and Pledged Equity, and agrees to use best efforts to obtain the assent of the third parties to said agreements.

(b) Additional Matters. Without limiting the generality of Section 4(a), Debtor will at the reasonable written request of the Secured Party, appear in and defend any action or proceeding which is reasonably expected to have a material and adverse effect with respect to such Debtor's title to, or the security interest of the Secured Party in, the Collateral.

5. **Representations, Warranties and Agreements.** Debtor represents, warrants and agrees as follows:

(a) No Other Encumbrances. Except as disclosed in the Disclosure Schedule to the Subscription Agreements, Debtor has good and marketable title to its Collateral, free and clear of any liens, claims, encumbrances and rights of any kind, except the Liens scheduled pursuant to the Securities Purchase Agreement or as otherwise approved in writing by the Secured Party, and has the right to pledge, sell, assign or transfer the Collateral.

(b) Authorization of Pledged Equity. All Pledged Equity is duly authorized and validly issued, is fully paid and, to the extent applicable, nonassessable and is not subject to the preemptive rights of any person.

(c) Security Interest/Priority. This Agreement creates a valid security interest in favor of the Secured party in the Collateral of Debtor and, when properly perfected by filing shall constitute a valid and perfected first priority security interest in such Collateral (including all uncertificated Pledged Equity consisting of partnership or limited liability company interests that do not constitute securities), to the extent such security interest can be perfected by filing under the UCC, free and clear of all liens except for liens permitted by the Securities Purchase Agreement. The taking possession by the Secured Party of the certificated securities (if any) evidencing the Pledged Equity and all other Instruments constituting Collateral will perfect and establish the first priority of the Secured Party's security interest in all the Pledged Equity evidenced by such certificated securities and such instruments. With respect to any Collateral consisting of a deposit account, investment property, securities entitlement or held in a securities account, upon execution and delivery by the Debtor, the applicable depository bank or securities intermediary and the Secured Party of an agreement granting control to the Secured Party over such Collateral, the Secured Party shall have a valid and perfected first priority security interest in such Collateral.

(d) Consents; Etc. There are no restrictions in any organizational document governing any Pledged Equity or any other document related thereto which would limit or restrict (i) the grant of a security interest pursuant to this Agreement in such Pledged Equity, (ii) the perfection of such security interest or (iii) the exercise of remedies in respect of such perfected security interest in the Pledged Equity as contemplated by this Agreement. Except for (i) the filing or recording of UCC financing statements, (ii) the filing of appropriate notices with the United States Patent and Trademark Office, the United States Copyright Office; with other applicable international registries, federal registries; and with local registries regarding assignments of rents and fixture filings, (iii) obtaining control to perfect the security interests created by this Agreement (to the extent required under Section 4 hereof), (iv) such actions as may be required by laws affecting the offering and sale of securities, and (v) consents, authorizations, filings or other actions which have been obtained or made, no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or governmental authority and no consent of any other person (including, without limitation, any stockholder, member or creditor of Debtor), is required for (A) the grant by Debtor of the security interest in the Collateral granted hereby or for the execution, delivery or performance of this Agreement by Debtor, (B) the perfection of such security interest (to the extent such security interest can be perfected by filing under the UCC, the granting of control (to the extent required, or as provided in Section 4(a) hereof) or by filing an appropriate notice with the United States Patent and Trademark Office, the United States Copyright Office or other applicable registry) or (C) the exercise by the Secured party of the rights and remedies provided for in this Agreement.

(e) Location of Place(s) of Business. All places of business of Debtor, including the identification of the principal place of business of Debtor, and the address(es) at which the Collateral is (are) located, are indicated on Schedule 5(e) hereto. Debtor shall not, without at least thirty (30) days prior written notice to the Secured Party, relocate such principal place of business or the Collateral, with no relocation being permitted outside the United States in any event.

(f) Right to Inspect the Collateral. The Secured Party shall have the right, during usual business hours of the Debtor and upon reasonable advance notice, to inspect and examine the Collateral. Debtor agrees that any reasonable expenses incurred by the Secured Party in connection with this Section 5(f) during the continuance of an Event of Default shall constitute Secured Party Expenses.

(g) Negative Covenants. Except for sale of inventory in the ordinary course of business, Debtor shall not (i) sell, lease or otherwise dispose of, relocate or transfer, any of the Collateral, except dispositions of Collateral that is worn out, obsolete or no longer necessary in the business of Debtor, (ii) allow any liens on or grant security interests in the Collateral except the Permitted Liens or (iii) change the Debtor's name or add any new fictitious name without the written consent of the Secured Party.

(h) Further Information. Debtor shall promptly supply the Secured Party with such information concerning Debtor and Debtor's business as the Secured Party may reasonably request from time-to-time hereafter, and shall within five (5) business days of obtaining knowledge thereof, notify the Secured Party of any event which constitutes an Event of Default.

(i) Solvency. Debtor is now and shall be at all times hereafter able to pay its debts (including trade debts) as they mature.

(j) Secured Party Expenses. Debtor shall, within fifteen (15) business days of written demand from the Secured Party accompanied by adequate documentation of such expenses, reimburse the Secured Party for all sums expended by it which constitute Secured Party Expenses and, in the event that Debtor does not pay any Secured Party Expenses payable to a third party within fifteen (15) business days after notice thereof, then the Secured Party may immediately and without further notice pay such Secured Party Expenses on Debtor's behalf. All such expenses shall become a part of the Obligations and, at the Secured Party's option, will (i) be payable on demand or (ii) be added to the balance of the Note and be payable proportionately with any installment payments that become due during the remaining term of the Note or, (iii) at Secured Party's option, may be treated as a balloon payment which will be due and payable at the maturity of the Note. This Agreement shall also secure payment of those amounts.

(k) Commercial Tort Claims. Debtor has no pending commercial tort claim (as a plaintiff) against any individual or entity (a "Commercial Claim"). Debtor shall promptly deliver to the Secured Party notice of any Commercial Claim that a Debtor may bring against any individual or entity, together with such information with respect thereto as the Secured Party may reasonably request. Within ten (10) days after a written request by the Secured Party, Debtor shall grant the Secured Party a security interest in any pending Commercial Claim to the extent such security interest is permitted by applicable law.

(l) Reliance by the Secured Party; Representations Cumulative. Each representation, warranty and agreement contained in this Agreement shall be conclusively presumed to have been relied on by the Secured Party regardless of any investigation made or information possessed by the Secured Party. The representations, warranties and agreements set forth herein shall be cumulative and in addition to any and all other representations, warranties and agreements set forth in the Subscription Documents or any other documents created after the Closing Date and signed by Debtor.

6. **Events of Default**. The occurrence of any Event of Default under the Note and the Securities Purchase Agreement, after the expiration of any applicable grace or cure period, shall constitute an "**Event of Default**" by Debtor under this Agreement.

7. **Rights and Remedies**.

(a) Rights and Remedies of the Secured Party.

(i) Upon the occurrence and during the continuance of an Event of Default, without notice of election and without demand, the Secured Party may cause any one or more of the following to occur, all of which are authorized by Debtor:

(A) The Secured Party may make such payments and do such acts as it reasonably considers necessary to protect its security interest in the Collateral. Debtor agrees to promptly assemble and make available the Collateral if the Secured Party so requires. Debtor authorizes the Secured Party to enter the premises where any of the Collateral is located, take and maintain possession of the Collateral, or any part thereof, and pay, purchase, contest or compromise any encumbrance, claim, right or lien which, in the reasonable opinion of the Secured Party, appears to be prior or superior to its security interest in violation of this Agreement, and to pay all reasonable expenses incurred in connection therewith.

(B) The Secured Party shall be automatically deemed to be granted a license or other appropriate right to use, without charge or representation or warranty, Debtor's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, and any other property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale and selling any Collateral.

(C) The Secured Party may ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale and sell (in the manner provided for herein) the Collateral.

(D) The Secured Party may sell the Collateral at either a public or private sale, or both (which in the case of a private sale of Pledged Equity, shall be to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own accounts, for investment and not with a view to the distribution or resale thereof), by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Debtor's premises) as is commercially reasonable (it not being necessary that the Collateral be present at any such sale) for the purposes of satisfying the Obligations. In the case of a sale of Pledged Equity, the Secured Party shall have no obligation to delay sale of any such securities for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the Securities Act of 1933. Debtor further acknowledges and agrees that any offer to sell any Pledged Equity which has been (i) publicly advertised on a bona fide basis in a newspaper or other publication of general circulation in the financial community of New York, New York (to the extent that such offer may be advertised without prior registration under the Securities Act of 1933), or (ii) made privately in the manner described above shall be deemed to involve a "public sale" under the UCC, notwithstanding that such sale may not constitute a "public offering" under the Securities Act of 1933, and the Secured Party may, in such event, bid for the purchase of such securities.

(E) The Secured Party shall be entitled to give notice of the disposition of the Collateral as follows: (1) the Secured Party shall give Debtor a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, the time on or after which the private sale or other disposition is to be made, (2) the notice shall be personally delivered or mailed, postage prepaid, to Debtor at least ten (10) days before the date fixed for the sale, or at least ten (10) days before the date on or after which the private sale or other disposition is to be made, unless the Collateral is perishable or threatens to decline speedily in value, in which case the Secured Party shall use commercially reasonable efforts to provide such notice to Debtor as far in advance of such disposition as is practicable.

(F) The Secured Party may purchase all or any portion of the Collateral at any public sale by credit bid or other appropriate payment therefor.

(G) The Secured Party shall have the following rights and remedies regarding the appointment of a receiver: (1) the Secured Party may have a receiver appointed as a matter of right, (2) the receiver may be an employee of the Secured Party and may serve without bond, and (3) all fees of the receiver and his or her attorney shall be Secured Party Expenses and become part of the Obligations and shall be payable on demand, with interest at the Rate specified in the Note from the date of expenditure until repaid. The Debtor acknowledges and agrees that the Secured Party shall have the rights with respect to the appointment of a receiver as described herein, even if such right is not statutorily provided under applicable law. Notwithstanding anything to the contrary herein or in the Note or in any other Subscription Documents, Debtor acknowledges and agrees that the Secured Party shall have the right with respect to the appointment of a receiver as described herein, in any jurisdiction at the sole discretion of the Secured Party.

(H) The Secured Party, either itself or through a receiver, may collect the payments, rents, income, dividends, distributions and revenues (together, "Revenue") from the Collateral. The Secured Party may at any time, in its reasonable discretion, transfer any Collateral into its own name or that of its nominee(s) and receive the Revenue therefrom and hold the same as security for the Obligations or apply it to payment of the Obligations in such order of preference as the Secured Party may determine. Insofar as the Collateral consists of accounts, general intangibles, loans receivable, insurance policies, instruments, chattel paper, choses in action, or similar property, the Secured Party may demand, collect, issue receipts for, settle, compromise, adjust, sue for, foreclose, or otherwise realize on the Collateral as the Secured Party may determine (in its reasonable discretion), whether or not the Obligations are then due. For these purposes, the Secured Party may, on behalf of and in the name of Debtor, (1) receive, open, and dispose of mail addressed to Debtor; (2) change any address to which mail and payments are to be sent; and (3) endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to the payment, shipment, or storage of any Collateral. To facilitate collection, the Secured Party may notify account debtors and Debtor on any Collateral to make payments directly to the Secured Party.

(ii) The Secured Party may deduct from the proceeds of any sale of the Collateral all Secured Party Expenses incurred in connection with the enforcement and exercise of any of the rights and remedies of the Secured Party provided for herein, irrespective of whether suit is commenced. If such deduction does not occur (in the Secured Party's reasonable discretion), upon demand, Debtor shall pay all of such Secured Party Expenses. Any deficiency which exists after disposition of the Collateral as provided herein will be paid immediately by Debtor, and any excess that exists will be returned, without interest and subject to the rights of third parties, to Debtor by the Secured Party; provided, however, that if any excess exists at a time when any of the Obligations remain outstanding, such excess shall instead remain as part of the Collateral and continue to be subject to the security interest in Section 3(a) above until such time as all of the Obligations have been fully satisfied or otherwise terminated.

(iii) Voting and payment Rights in Respect of the Pledged Equity.

(A) So long as no Event of Default shall exist, Debtor may (1) exercise any and all voting and other rights pertaining to the Pledged Equity of such Debtor or any part thereof for any purpose not inconsistent with the terms of this Agreement or the Securities Purchase Agreement and (2) receive and retain any and all dividends (other than stock dividends and other dividends constituting Collateral which are addressed hereinabove), principal or interest paid in respect of the Pledged Equity to the extent they are allowed under the Securities Purchase Agreement; and

(B) During the continuance of an Event of Default, (1) all rights of an Debtor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to clause (A)(1) above shall cease and all such rights shall thereupon become vested in the Secured Party which shall then have the sole right to exercise such voting and other consensual rights, (2) all rights of an Debtor to receive the dividends, principal and interest payments which it would otherwise be authorized to receive and retain pursuant to clause (A)(2) above shall cease and all such rights shall thereupon be vested in the Secured Party which shall then have the sole right to receive and hold as Collateral such dividends, principal and interest payments, and (3) all dividends, principal and interest payments which are received by a Debtor contrary to the provisions of clause (B)(2) above shall be received in trust for the benefit of the Secured Party, shall be segregated from other property or funds of such Debtor, and shall be forthwith paid over to the Secured Party as Collateral in the exact form received, to be held by the Secured Party as Collateral and as further collateral security for the Secured Obligations.

(b) Rights and Remedies Cumulative. The rights and remedies of the Secured Party under this Agreement and any other agreements and documents delivered or executed in connection with the Obligations shall be cumulative. The Secured Party shall also have all other rights and remedies not inconsistent herewith as are provided under applicable law, or in equity. No exercise by the Secured Party of any one right or remedy shall be deemed an election.

8. **Additional Waivers**. The Secured Party shall not in any way or manner be liable or responsible for (i) the safekeeping of the Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency or other person whomsoever, except to the extent that such loss, damage, liability, cost or expense has resulted from the gross negligence or willful misconduct of the Secured Party or its affiliates. If the Secured Party at any time has possession of any Collateral, whether before or after an Event of Default, the Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if the Secured Party takes such action for that purpose as Debtor shall request or as the Secured Party, in its reasonable discretion, shall deem appropriate under the circumstances, but failure to honor any request by Debtor shall not of itself be deemed to be a failure to exercise reasonable care. The Secured Party shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve, or maintain any security interest given to secure the Obligations.

9. **Notices**. All notices or demands by any party relating to this Agreement shall be made in writing as provided in the Note, and such notices shall be delivered to the addresses indicated therein. Each party shall provide written notice to the other party of any change in address.

10. **Choice of Law**. The validity of this Agreement, its construction, interpretation and enforcement, and the rights of the parties hereunder and concerning the Collateral, shall be determined under, governed by, and construed in accordance with the laws of the state of Delaware as applied to contracts made and to be fully performed in such state, without regard to the conflicts of laws provisions thereof, except to the extent that the validity, perfection or enforcement of a security interest hereunder in respect of any Collateral is governed by the laws of the state of Delaware or some other jurisdiction, in which case such laws shall govern.

11. **Waiver of Jury Trial. THE DEBTOR WAIVES, TO THE EXTENT PERMITTED BY LAW, ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT.**

12. **General Provisions**.

(a) Effectiveness. This Agreement shall be binding and deemed effective against Debtor when executed by Debtor and the Secured Party.

(b) Successors and Assigns. This Agreement shall bind and inure to the benefit of the successors and permitted endorsees, transferees and assigns of the Secured Party. Debtor shall not assign this Agreement or any rights or obligations hereunder, and any such assignment shall be absolutely void.

(c) Section Headings. Section headings are for convenience only.

(d) Interpretation. No uncertainty or ambiguity herein shall be construed or resolved against the Secured Party or Debtor, whether under any rule of construction or otherwise. This Agreement shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties.

(e) Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

(f) Entire Agreement; Amendments. This Agreement and the agreements and documents referenced herein contain the entire understanding of the parties with respect to the subject matter covered herein and supersede all prior agreements, negotiations and understandings, written or oral, with respect to such subject matter. No provision of this Agreement shall be waived or amended other than by an instrument in writing signed by Debtor and the Secured Party.

(g) Good Faith. The parties intend and agree that their respective rights, duties, powers, liabilities and obligations shall be performed, carried out, discharged and exercised reasonably and in good faith.

(h) Waiver and Consent. No delay or omission on the part of the Secured Party in exercising any right shall operate as a waiver of such right or any other right. A waiver by the Secured Party of a provision of this Agreement or any other agreement between or among the parties shall not prejudice or constitute a waiver of the Secured Party's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by the Secured Party, nor any course of dealing between the Secured Party and Debtor, shall constitute a waiver of any of the Secured Party's rights or of any of Debtor's obligations as to any future transactions. Whenever the consent of the Secured Party is required under this Agreement, the granting of such consent by the Secured Party in any instance shall not constitute continuing consent to subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the reasonable discretion of the Secured Party.

(i) Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same agreement.

(j) Termination. Upon full satisfaction or other termination of the Obligations (i) the Secured Party shall release and return to Debtor all of the Collateral and any and all certificates and other documentation representing or relating to the Collateral and (ii) the security interests provided for under this Agreement shall be terminated and of no further force and effect. At Debtor's expense, the Secured Party shall take all actions reasonably requested by Debtor in connection with the foregoing.

(k) Consent of Debtor as Issuers of Pledged Equity. Debtor/issuer of Pledged Equity party to this Agreement hereby acknowledges, consents and agrees to the grant of the security interests in such Pledged Equity pursuant to this Agreement, together with all rights accompanying such security interest as provided by this Agreement and applicable law, notwithstanding any anti-assignment provisions in any operating agreement, limited partnership agreement or similar organizational or governance documents of such issuer.

[*remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized persons on the date first written above.

DEBTOR

Lucy Scientific Discovery Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Terracube International Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Scientific Discovery USA Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

114474 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Retail Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

Lucy Therapeutic Discoveries Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

LSDI Manufacturing Inc.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

1438430 BC Ltd.

By: */s/ Richard Nanula*
Name: Richard Nanula
Title: Chief Executive Officer

PURCHASER:

[_____]
by its Manager, [_____]

By: */s/ Investor*
Name: [_____]
Title: Manager

[*signature page to Security Agreement*]

Schedule 5(e)
Addresses of Debtor/Principal Place of Business of Debtor

1. 301-1321 Blanshard St, Victoria BC V8W0B6
2. 2301 Blake St, Suite 100, Denver, Colorado, 80205
3. 1209 Orange Street, Wilmington, Delaware,19801

EXHIBIT A

COLLATERAL

Applicable Definitions:

In addition to the definitions of Article 9 of the Uniform Commercial Code of the State of Delaware, the following defined terms are used herein:

*"**Debtor's Books**"* means and includes all of Debtor's books and records in any medium or form, including, but not limited to, all records, ledgers and computer programs, disk or tape files, thumb drives, material stored in the "cloud," printouts and other information indicating, summarizing or evidencing the Collateral.

"***Equity Interests***" means, with respect to any person, all of the shares of capital stock of (or other ownership or profit interests in) such person, all of the warrants, options or other rights for the purchase or acquisition from such person of shares of capital stock of (or other ownership or profit interests in) such person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such person or warrants, rights or options for the purchase or acquisition from such person of such shares (or such other interests), and all of the other ownership or profit interests in such person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

*"**Negotiable Collateral**"* means and includes all of Debtor's presently existing and hereafter acquired or arising letters of credit, advices of credit, promissory notes, drafts, instruments, documents, Equity Interests in any entity, leases of personal property and chattel paper, as well as Debtor's Books relating to any of the foregoing.

"***Pledged Equity***" means, with respect to Debtor, 100% of the issued and outstanding Equity Interests of any subsidiary that is directly owned by Debtor, whether now owned or hereafter acquired, in each case together with the certificates (or other agreements or instruments), if any, representing such shares, and all options and other rights, contractual or otherwise, with respect thereto, including, but not limited to, the following:

(1) all Equity Interests representing a dividend thereon, or representing a distribution or return of capital upon or in respect thereof, or resulting from a stock split, revision, reclassification or other exchange therefor, and any subscriptions, warrants, rights or options issued to the holder thereof, or otherwise in respect thereof; and

(2) in the event of any consolidation or merger involving the issuer thereof and in which such issuer is not the surviving person, all shares of each class of the Equity Interests of the successor person formed by or resulting from such consolidation or merger, to the extent that such successor person is a direct subsidiary of an Debtor.

The term "Pledged Equity" specifically includes, but is not limited to, all rights of Debtor embodied in or arising out of the Debtor's status as a shareholder or member, consisting of: (a) all economic rights, including without limitation, all rights to share in the profits and losses and all rights to receive distributions of the assets; and (b) all governance rights, including without limitation, all rights to vote, consent to action and otherwise participate in the management.

Identification of Collateral:

All of the right, title and interest of Debtor in and to the following property, wherever located and whether now owned by Debtor or hereafter acquired by Debtor:

1. All accounts, chattel paper, contracts, contract rights, accounts receivable, tax refunds, tax credits, Notes receivable, Pledged Equity, documents, choses in action and general intangibles, including, but not limited to, proceeds of inventory and returned goods and proceeds from the sale of goods and services, and all rights, liens, securities, guaranties, remedies and privileges related thereto, including the right of stoppage in transit and rights and property of any kind forming the subject matter of any of the foregoing;

2. All certificates of deposit and all time, savings, demand, or other deposit accounts in the name of Debtor or in which Debtor has any right, title or interest, including but not limited to all sums now or at any time hereafter on deposit, and any renewals, extensions or replacements of and all other property which may from time to time be acquired directly or indirectly using the proceeds of any of the foregoing;

3. All inventory and equipment of every type or description wherever located, including, but not limited to all raw materials, parts, containers, work in process, finished goods, goods in transit, wares, merchandise, furniture, fixtures, hardware, machinery, tools, parts, supplies, automobiles, trucks, other intangible property of whatever kind and wherever located associated with the Debtor's business, tools and goods returned for credit, repossessed, reclaimed or otherwise reacquired by Debtor;

4. All documents of title and other property from time to time received, receivable or otherwise distributed in respect of, exchange or substitution for or addition to any of the foregoing including, but not limited to, any documents of title;

5. All know-how, information, labels, permits, patents, copyrights, goodwill, trademarks, trade names, licenses and approvals held by Debtor, including all other intangible property of Debtor;

6. All assets of any type or description that may at any time be assigned or delivered to or come into possession of Debtor for any purpose for the account of Debtor or as to which Debtor may have any right, title, interest or power, and property in the possession or custody of or in transit to anyone for the account of Debtor, as well as all proceeds and products thereof and accessions and annexations thereto;

7. Debtor’s tangible and intangible personal property assets, including, but not limited to, all of the following: (i) all accounts, health-care-insurance receivables, cash and currency, chattel paper, deposit accounts, documents, equipment, fixtures, general intangibles, instruments, intellectual property, inventory, investment property, Negotiable Collateral, loans receivable, motor vehicles, Pledged Equity, goods, supporting obligations, Debtor’s Books, and such other assets of Debtor as may hereafter arise or Debtor may hereafter acquire or in which the Secured Party may from time-to-time obtain a security interest, and (ii) the proceeds of any of the foregoing, including, but not limited to, proceeds of insurance covering the foregoing or any portion thereof; provided, however, that notwithstanding anything to the contrary contained in this Agreement, the Collateral does not include any “hazardous waste” as that term is defined under 42 U.S.C. section 6903(5), as such section may be from time to time amended, or under any regulations thereunder; and

8. All proceeds (including but not limited to insurance proceeds), products of, and accessions and annexations of any of the foregoing.