

LOAN Agreement

THIS Agreement made as of the 30th day of June, 2004.

BETWEEN:

PERMATECH ELECTRONICS CORPORATION,
a corporation amalgamated under the laws of the
Province of Ontario

(hereinafter referred to as the "Borrower")

OF THE FIRST PART,

-- and --

NU-WAY OFFERINGS LIMITED, a corporation
incorporated under the laws of the Province of Ontario

(hereinafter referred to as the "Lender")

OF THE SECOND PART.

WHEREAS the Borrower has requested the Lender to loan to the Borrower and the Lender has agreed to loan to the Borrower the sum of \$363,145.09 (the "**Principal Amount**");

NOW THEREFORE THIS Agreement WITNESSES THAT in consideration of the respective covenants and Agreements of the parties contained herein, the sum of one dollar paid by each party hereto to each of the other parties hereto and other good and valuable consideration, (the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto), it is agreed as follows:

ARTICLE ONE -- DEFINITIONS AND INTERPRETATION

1.1 Definitions. In this Agreement unless something in the subject matter or context is inconsistent therewith:

- (a) "**Business Day**" means any day, other than a Saturday or Sunday, or holiday, on which Canadian chartered banks are open for business in Toronto, Ontario;
- (b) "**General Security Agreement**" means the security Agreement so entitled and issued by the Borrower to the Lender dated as of the 30th day of June, 2004 and attached hereto as **Schedule "A"**;
- (c) "**Interest Rate**" means the prime lending rate of the Bank of Montreal plus 14.3% adjusted every six months commencing June 30, 2004;
- (d) "**Note**" means a promissory note of the Borrower in favour of the Lender in the principal amount of \$363,145.09 denominated in Canadian Dollars, the form of which is attached hereto as **Schedule "B"**;

1.2 Schedules. **Schedule "A" and Schedule "B"**, attached hereto, are incorporated in and deemed to be an integral part of this Agreement.

ARTICLE TWO -- THE LOAN

2.1 *The Loan.* The Lender hereby agrees that on the terms and subject to the conditions set forth herein, it will make a loan (**the "Loan"**) in the aggregate amount of \$363,145.09 to the Borrower. The parties acknowledge that the funds have already been advanced to the Borrower pursuant to the prior arrangements between the parties.

2.2 *Security.* The Borrower agrees to grant to the Lender a security interest in the assets of the Borrower as more particularly described in the General Security Agreement.

2.3 *No Other Indebtedness.* Other than the Loan, the Lender acknowledges and agrees that the Borrower is not otherwise indebted to the Lender and hereby remises, releases and forever discharges the Borrower from all rights, demands or claims of any kind whatsoever and howsoever arising which the Lender may have or ever had against the Borrower or against its property including but not limited to in respect of the factoring Agreement between the Lender, the Borrower and ZTEST Electronics Inc. dated October 1, 2001 but other than the obligations pursuant to this Agreement, the Note and the General Security Agreement.

ARTICLE THREE -- FORM OF THE NOTE

3.1 *Promissory Note.* The advance of funds referred to in Section 3.1 hereof shall be evidenced by the Note in the Principal Amount of \$363,145.09.

ARTICLE FOUR -- REPAYMENT

4.1 *Repayment.* Until June 30, 2005, the Borrower shall only be required to pay to the Lender interest at the Interest Rate calculated as of the last day of the month and payable on the 15th day of each month commencing July 15, 2004. After June 30, 2005 the Loan shall be converted into a term loan (**the "Term Loan"**) and the Principal Amount shall be repaid together with any interest or other amounts payable in equal monthly installments commencing on July 30, 2005 and ending on June 30, 2008. The monthly payment shall be calculated based upon the amount of the Loan using a three year amortization period. All further references herein to the Loan shall include the Loan and the Term Loan.

ARTICLE FIVE -- INTEREST

5.1 *Interest.* The Loan shall bear interest, including interest on overdue interest, both before and after default and judgment on any unpaid principal balance thereof until maturity from time to time at the Interest Rate calculated and payable monthly not in advance on the last day of the month and payable on the 15th day of the month commencing July 15, 2004.

ARTICLE SIX -- PAYMENTS AND PREPAYMENTS

6.1 *Cheques.* The Borrower shall deliver to the Lender on closing six (6) post-dated cheques dated on the 15th day of each month commencing July 15, 2004. Thereafter, following each adjustment in the Interest Rate, the Borrower shall deliver to the Lender six (6) further post-date cheques covering the next six (6) payments to the Lender until such time as the Principal Amount has been paid in full.

6.2 *Type and Place of Payment.* All funds made available to the Borrower by the Lender

hereunder, and all payments of principal, interest and other amounts payable hereunder by the Borrower, shall be made or delivered to the Lender at the following address:

510 Branstone Drive
Waterloo, Ontario
N2T 1X8

Attention: Don Nurse

6.3 Pre-payments. The Borrower undertakes and agrees to use commercially reasonable efforts to repay the Principal Amount prior to June 30, 2008 to the extent that its cash flow permits such additional payments. Lender agrees that there shall be no penalty or bonus owed to the Lender in respect of any advance payments. Advance payments shall not reduce the amount of the monthly payments required under Sections 4.1 and 5.1.

6.4 Financing. The balance of the Principal Amount outstanding together with all accrued and unpaid interest shall become due within fifteen (15) days of the Borrower completing an equity financing in the amount of at least \$1,500,000. The Borrower shall notify the Lender of any such proposed financing.

6.5 Calling the Loan. The Lender shall have the right to demand the immediate repayment of the Loan upon the occurrence of one of the following events:

- (a) the death of either Wojciech Drzazga or John Perreault; or
- (b) if either Wojciech Drzazga or John Perreault resigns from his employment with either the Borrower or its parent company, ZTEST Electronics Inc.

Such demand shall be made in writing to the Borrower and the Borrower shall have fifteen (15) business days from receipt of such demand to repay the Lender all amounts outstanding pursuant to this Agreement and the Note.

ARTICLE SEVEN -- REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties of the Borrower. To induce the Lender to enter into this Agreement and to make the Loan, the Borrower makes the following representations and warranties which shall survive the execution and delivery of this Agreement and the Note:

- (a) Neither the execution and delivery of this Agreement nor compliance with the terms, conditions and provisions hereof, will conflict with or result in a breach of any of the terms, conditions or provisions of:
 - (i) any Agreement, instrument or arrangement to which the Borrower is now a party or by which it is or may be bound, or constitute a default thereunder;
 - (ii) any judgment or order, writ, injunction or decree of any court; or
 - (iii) any applicable law or governmental regulation.
- (b) No action of, or filing with any governmental or public body or authority is required to authorize, or is otherwise required in connection with, the execution, delivery and performance of this Agreement and the Note by the Borrower.

- (c) There are no actions, suits or proceedings pending, to the knowledge of the Borrower, threatened (nor to the best knowledge of the Borrower is there any pending investigation) against or involving the Borrower at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or before any arbitrator of any kind, which involve a reasonable possibility (so far as the Borrower can foresee) of any material adverse change in the financial affairs of the Borrower, and the Borrower is not in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court, arbitrator or federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which involves a reasonable possibility (so far as the Borrower can foresee) of any material adverse change in the financial affairs of the Borrower.

ARTICLE EIGHT -- COVENANTS

8.1 *Covenants of the Borrower.* From the date of this Agreement and thereafter until the Term Loan (including interest thereon) and any other amounts to be paid by the Borrower to the Lender hereunder, are paid in full:

- (a) The Borrower will notify the Lender immediately if the Borrower shall default in a material manner in the payment of any of its indebtedness for borrowed money, whether such indebtedness now exists or shall hereafter be created. The Borrower also shall notify the Lender immediately if there shall occur a material event of default under any mortgage, indenture or instrument (including without limitation this Agreement) under which there may be issued, or by which there may be incurred or evidenced, any indebtedness of the Borrower for borrowed money, whether such indebtedness now exists or shall hereafter be created.
- (b) The Borrower will comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, a breach of which would materially and adversely affect the financial condition or businesses of the Borrower, except where contested in good faith and by proper proceedings.
- (c) The Borrower will promptly give the Lender notice in writing of all litigation and all proceedings before any governmental or regulatory agencies or arbitration authorities affecting the Borrower, except those which, if adversely determined, would not have a material adverse effect on the financial condition or business of the Borrower.

ARTICLE NINE -- EVENTS OF DEFAULT

9.1 *Default.* The Loan, together with accrued interest thereon, and all other obligations of the Borrower hereunder shall become and be immediately due and payable upon written notice of the Lender if any one or more of the following events (**herein called "Events of Default"**) shall occur for any reason whatsoever:

- (a) if default shall be made in the due and punctual payment of the principal of the Loan, when and as the same shall become due and payable, whether on demand by the Lender or by acceleration or otherwise and such default shall have continued for a period of ninety (90) days after notice from the Lender to the Borrower;

- (b) if default shall be made in the due and punctual payment of interest on the Loan or any other amounts due hereunder, when and as the same shall become due and payable, and such default shall have continued for a period of ninety (90) days after notice from the Lender to the Borrower;
- (c) if any representation or warranty of the Borrower in this Agreement shall prove to have been untrue or incorrect in any material respect on the date as of which it was made and such default shall have continued for a period of ninety (90) days after notice from the Lender to the Borrower;
- (d) if the Borrower shall default in the performance or observance of any covenant in this Agreement and such default shall have continued for a period of ninety (90) days after notice from the Lender to the Borrower;
- (e) if the Borrower shall:
 - (i) admit in writing its inability to pay its debts generally as they become due, or not pay its debts generally as they become due;
 - (ii) file an assignment or a petition in bankruptcy, as the case may be, or a petition to take advantage of any insolvency statute;
 - (iii) make an assignment for the benefit of its creditors;
 - (iv) consent to the appointment of a receiver of the whole or any substantial part of their properties;
 - (v) file a petition or answer seeking reorganization, arrangement, adjustment or composition under applicable bankruptcy laws or any other applicable law or statute of Canada or any subdivision thereof; and
 - (vi) have been adjudged by a court having jurisdiction in the premises a bankrupt or insolvent, or a decree or order of a court having jurisdiction in the premises shall have been entered for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy of the Borrower and such decree or order shall remain in force undischarged or unstayed for a period of sixty (60) days; and
- (f) the occurrence of any Event of Default as such term is used in the General Security Agreement dated of even date herewith among the same parties or the failure of the Borrower to comply with any provision contained in such General Security Agreement.

9.2 Remedies. After any acceleration provided for in Section 9.1, the Lender shall have, in addition to the rights and remedies given it by this Agreement, all those allowed by all applicable laws.

ARTICLE TEN -- GENERAL CONTRACT PROVISIONS

10.1 Notices. All notices, requests, demands or other communications (**collectively, "Notices"**) by the terms hereof required or permitted to be given by one party to any other party, or to any other person shall be given in writing by personal delivery or by registered mail, postage prepaid, or by

facsimile transmission to such other party as follows:

- (a) To the Borrower at: 523 McNicoll Avenue
North York, Ontario
M2H 2C9

Facsimile: (416) 297-5156
- (b) To the Lender at: 100 Sportsworld Drive
Kitchener, Ontario
N2P 2J1

Facsimile: (519) 653-0012

or at such other address as may be given by such person to the other parties hereto in writing from time to time.

All such Notices shall be deemed to have been received when delivered or transmitted, or, if mailed, 72 hours after 12:01 a.m. on the day following the day of the mailing thereof. If any Notice shall have been mailed and if regular mail service shall be interrupted by strikes or other irregularities, such Notice shall be deemed to have been received 72 hours after 12:01 a.m. on the day following the resumption of normal mail service, provided that during the period that regular mail service shall be interrupted all Notices shall be given by personal delivery or by facsimile transmission.

10.2 Additional Considerations. The parties shall sign such further and other documents, cause such meetings to be held, resolutions passed and by-laws enacted, exercise their vote and influence, do and perform and cause to be done and performed such further and other acts and things as may be necessary or desirable in order to give full effect to this Agreement and every part thereof.

10.3 Counterparts. This Agreement may be executed in several counterparts, each of which when executed shall be deemed to be an original and such counterparts together shall be but one and the same instrument.

10.4 Time of the Essence. Time shall be of the essence of this Agreement and of every part hereof and no extension or variation of this Agreement shall operate as a waiver of this provision.

10.5 Entire Agreement. This Agreement constitutes the entire Agreement between the parties with respect to all of the matters herein and its execution has not been induced by, nor do any of the parties rely upon or regard as material, any representations or writings whatever not incorporated herein and made a part hereof and may not be amended or modified in any respect except by written instrument signed by the parties hereto. Any schedules referred to herein are incorporated herein by reference and form part of the Agreement.

10.6 Enurement. This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and assigns.

10.7 Currency. Unless otherwise provided for herein, all monetary amounts referred to herein shall refer to the lawful money of Canada.

10.8 Headings for Convenience Only. The division of this Agreement into articles and sections is for convenience of reference only and shall not affect the interpretation or construction of this Agreement.

10.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and each of the parties hereto agrees irrevocably to conform to the non-exclusive jurisdiction of the Courts of such Province.

10.10 Gender. In this Agreement, words importing the singular number shall include the plural and vice versa, and words importing the use of any gender shall include the masculine, feminine and neuter genders and the word "person" shall include an individual, a trust, a partnership, a body corporate, an association or other incorporated or unincorporated organization or entity.

10.11 Calculation of Time. When calculating the period of time within which or following which any act is to be done or step taken pursuant to this Agreement, the date which is the reference date in calculating such period shall be excluded. If the last day of such period is not a Business Day, then the time period in question shall end on the first business day following such non-business day.

10.12 Legislation References. Any references in this Agreement to any law, by-law, rule, regulation, order or act of any government, governmental body or other regulatory body shall be construed as a reference thereto as amended or re-enacted from time to time or as a reference to any successor thereto.

10.13 Severability. If any Article, Section or any portion of any Section of this Agreement is determined to be unenforceable or invalid for any reason whatsoever, that unenforceability or invalidity shall not affect the enforceability or validity of the remaining portions of this Agreement and such unenforceable or invalid Article, Section or portion thereof shall be severed from the remainder of this Agreement.

10.14 Transmission by Facsimile. The parties hereto agree that this Agreement may be transmitted by facsimile or such similar device and that the reproduction of signatures by facsimile or such similar device will be treated as binding as if originals and each party hereto undertakes to provide each and every other party hereto with a copy of the Agreement bearing original signatures forthwith upon demand.

IN WITNESS WHEREOF the parties have duly executed this Loan Agreement this 30th day of June, 2004.

**PERMATECH ELECTRONICS
CORPORATION**

Per:  C/S
A.S.O.

NU-WAY OFFERINGS LIMITED

Per:  C/S
A.S.O.

SCHEDULE "A"

GENERAL SECURITY AGREEMENT

THIS AGREEMENT made as of the 30th day of June, 2004.

BETWEEN:

PERMATECH ELECTRONICS CORPORATION, a corporation amalgamated under the laws of the Province of Ontario,

(hereinafter referred to as the "Borrower")

OF THE FIRST PART,

-- and --

NU-WAY OFFERINGS LIMITED, a corporation incorporated under the laws of the Province of Ontario

(hereinafter referred to as the "Lender")

OF THE SECOND PART.

WHEREAS the Borrower and the Lender have entered into a loan agreement pursuant to which the Lender agreed to advance the principal amount of \$363,145.09 to the Borrower;

AND WHEREAS as security for such loan arrangement the Borrower has agreed to provide a promissory note where the principal amount of the note shall be the amount of the Loan advanced in favour of the Lender to the Borrower (the "Note");

NOW THIS AGREEMENT WITNESSES THAT in consideration of the respective covenants and agreements of the parties contained herein, the sum of one dollar paid by each party hereto each of the other parties hereto and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto) it is agreed as follows:

ARTICLE ONE -- DEFINITIONS AND INTERPRETATION

1.1 Definitions. In this agreement unless something in the subject matter or context is inconsistent therewith:

- (a) "**Act**" means the *Personal Property Security Act* (Ontario) and the regulations thereunder, as amended from time to time, or any legislation that may be substituted therefor;
- (b) "**Agreement**" means this agreement and any amendments hereto agreed to by all of the parties evidenced in writing;
- (c) "**Collateral**" means, subject to Section 2.4, any and all of the undertakings, property and assets of the Borrower which are now or at any time hereafter owned by the Borrower or in which the Borrower now has or at any time hereafter acquires any interest in of any nature whatsoever, including without in any way limiting the generality of the foregoing;

- (i) all present and future equipment of the Borrower, including all machinery, fixtures, plant, tools, furniture, vehicles of any kind or description, all spare parts, accessories installed in or affixed or attached to any of the foregoing, and all drawings, specifications, plans and manuals relating thereto subject to any pre-existing security interests in favour of lessors or otherwise as set out in **Schedule "A"** hereto;
- (ii) all present and future inventory of the Borrower, including all raw materials, materials used or consumed in the business or profession of the Borrower, work-in-progress, finished goods, goods used for packing, materials used in the business of the Borrower not intended for sale, and goods acquired or held for sale or furnished or to be furnished under contracts of rental or service ("**Inventory**");
- (iii) all present and future debts, demands and amounts due or accruing due to the Borrower whether or not earned by performance, including without limitation its book debts, accounts receivable and claims under policies of insurance; and all contracts, security interests and other rights and benefits in respect thereof ("**Accounts**");
- (iv) all present and future intangible personal property of the Borrower, including all contract rights, goodwill, patents, trade marks, trade names, business styles, copyrights and other industrial property, and all other choses in action of the Borrower of every kind, whether due at the present time or hereafter to become due or owing;
- (v) all present and future documents of title of the Borrower, whether negotiable or otherwise including all warehouse receipts and bills of lading;
- (vi) all present and future agreements made between the Borrower as secured party and others which evidence both a monetary obligation and a security interest in or a lease of specific goods ("**Chattel Paper**");
- (vii) all present and future bills, notes and cheques (as such are defined pursuant to the *Bills of Exchange Act* (Canada)), and all other writings that evidence a right to the payment of money and are of a type that in the ordinary course of business are transferred by delivery without any necessary endorsement or assignment ("**Instruments**");
- (viii) all present and future money of the Borrower, whether authorized or adopted by the Parliament of Canada as part of its currency or any foreign government as part of its currency;
- (ix) all present and future securities held by the Borrower, including shares, options, rights, warrants, joint venture interests, interests in limited partnerships, bonds, debentures and all other documents which constitute evidence of a share, participation or other interest of the Borrower in property or in an enterprise or which constitute evidence of an obligation of the issuer; and including an uncertificated security within the meaning of Part VI (Investment Securities) of the *Business Corporations Act* (Ontario) and all substitutions therefor and dividends and income derived therefrom ("**Securities**");

- (x) all books, accounts, invoices, letters, papers, documents and other records in any form evidencing or relating to the undertaking, property and assets of the Borrower which are subject to the Security Interest; and
- (xi) all Proceeds;
- (d) **"Deficiency"** means, at any time, the difference, if any, between:
 - (i) the aggregate of:
 - (A) the amount of the Obligations at that time, and
 - (B) the Reasonable Expenses incurred prior to that time; and
 - (ii) the proceeds of disposition received by the Lender from a disposition of the Collateral in accordance with Subsection 4.1(g);
- (e) **"Event of Default"** means the occurrence of one or more of the following events:
 - (i) the Borrower fails to pay to the Lender any indebtedness forming part of the Obligations as and when the same shall be due and payable by the Borrower to the Lender; and
 - (ii) the Borrower defaults in the performance of any of the other Obligations which event is not remedied within ninety (90) days of the Lender providing the Borrower with written notice of the event of default;
which event is not remedied within ninety (90) days of the Lender providing the Borrower with written notice of the Event of Default;
- (f) **"Insurance Proceeds"** means all proceeds of insurance payable to the Borrower under policies of insurance maintained by the Borrower from time to time;
- (g) **"Interest Rate"** means the prime lending rate of the Bank of Montreal plus 14.3% adjusted every six months commencing June 30, 2004;
- (h) **"Note"** means the promissory note to be executed, the form of which is attached hereto as **Schedule "B"**;
- (i) **"Obligations"** means all indebtedness, liabilities and obligations (whether direct, indirect, absolute, contingent or otherwise) of the Borrower to the Lender existing from time to time under or pursuant to either one or both of the Note or this Agreement;
- (j) **"Proceeds"** means property in any form derived, directly or indirectly, from any dealing with the Collateral or other Proceeds and includes any payment representing indemnity or compensation for loss to the Collateral or other Proceeds, including without limitation, all Insurance Proceeds;
- (k) **"Reasonable Expenses"** means any and all reasonable expenses incurred from time to time by the Lender, or any Receiver, in the preparation of this Agreement, in the

perfection or preservation of the Security Interest, in enforcing payment or performance of the Obligations or any part thereof or in locating, taking possession of, transporting, holding, repairing, processing, preparing for and arranging for the disposition of and/or disposing of the Collateral and any and all other reasonable expenses incurred by the Lender or any Receiver as a result of the Lender or a Receiver exercising any of their rights or remedies hereunder and any and all reasonable legal expenses including those incurred in any legal action or proceeding or appeal therefrom commenced, or taken in good faith by the Lender and any and all reasonable fees and disbursements of any solicitor, accountant or valuator or similar person employed by the Lender in connection with any of the foregoing;

- (l) **"Receiver"** means a receiver, receiver and manager or any similar person appointed in accordance with Subsection 4.1(m); and
- (m) **"Security Interest"** shall have the meaning assigned thereto in Section 2.1.

ARTICLE TWO -- CREATION OF SECURITY INTEREST

2.1 Grant of Security Interest. Subject to Section 2.4, as continuing security for the due and timely payment and performance by the Borrower of the Obligations, including but not limited to the due observance of the Note, the Borrower hereby grants to the Lender a security interest (**the "Security Interest"**) in the Collateral.

2.2 Proceeds of Collateral. For greater certainty, the Security Interest shall extend to the Proceeds of the Collateral.

2.3 No Postponement. The Borrower and the Lender acknowledge and agree that they do not intend to postpone the time for attachment of the Security Interest.

2.4 Excepted from Collateral. The last day of any term reserved by any lease, verbal or written, or any Agreement therefor, now held or hereafter acquired by the Borrower is hereby excepted out of the Collateral. As further continuing security for the due and timely payment and performance by the Borrower of the Obligations, the Borrower agrees that it will stand possessed of the reversion of one day remaining in the Borrower in respect of each such term, respectively, upon trust to assign and dispose of the same in such manner as the Lender may from time to time direct in writing and, upon any sale of any such leasehold premises by the Lender as provided for herein, the Lender shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser or any other person, firm or corporation, be entitled by deed or other written instrument to appoint such purchaser or other person, firm or corporation as a new trustee of the aforesaid residue of any such term in place of the Borrower and to vest the same accordingly in the new trustee freed and discharged from any obligation whatsoever respecting the same.

2.5 Transfers to Lender. The Borrower shall, upon request from the Lender, forthwith deliver to the Lender to be held by the Lender hereunder all instruments, securities, letters of credit, advances of credit and negotiable documents of title in its possession or control, and shall, where appropriate, duly endorse the same for transfer in blank or as the Lender may direct and shall make all reasonable efforts to forthwith deliver to the Lender any and all consents or other instruments or documents necessary to comply with any restrictions on the transfer thereof in order to transfer the same to the Lender.

2.6 Additional Security. As further continuing security for the due and timely payment and performance by the Borrower of the Obligations, the Borrower, subject to Section 2.4, hereby grants, bargains, sells, assigns and transfers to the Lender all Collateral such that title thereto and ownership therein shall belong to and be vested in the Lender, provided that the Lender shall not thereby assume or be liable for any obligations or payments in respect of any of the Collateral and further provided that, upon the sale of any Inventory by the Borrower in accordance with the provisions of Section 2.7, title thereto and ownership therein shall be automatically divested from the Lender and provided further that, upon the termination of this Agreement in accordance with Section 9.2, title to and ownership in the Collateral shall be automatically revested in the Borrower without any further act of the Lender or the Borrower.

2.7 Ordinary Course of Business. Unless and until an Event of Default shall occur, the Inventory may be sold by the Borrower in the ordinary course of its business and for the purpose of carrying on the same.

2.8 Borrower not to Encumber Collateral. The Borrower shall not create, assume, incur or permit to exist any mortgage, hypothec, charge, pledge, assignment, security interest, lien or other encumbrance in, on or of the Collateral or any part or parts thereof other than the Security Interest or other security interests perfected by registration at the date hereof.

ARTICLE THREE – WARRANTIES AND COVENANTS OF THE BORROWER

3.1 Representations and Warranties. The Borrower hereby represents and warrants to the Lender that:

- (a) the Borrower is a corporation duly incorporated, organized and subsisting under the laws of Ontario with the corporate power to enter into this Agreement; this Agreement has been duly authorized by all necessary corporate action on the part of the Borrower and constitutes a legal and valid agreement binding upon the Borrower enforceable in accordance with its terms; the making and performance of this Agreement will not result in the breach of, constitute a default under, contravene any provision of, or result in the creation of, any lien, charge, security interest, encumbrance or any other rights of others upon any property of the Borrower pursuant to any agreement, indenture or other instrument to which the Borrower is a party or by which the Borrower or any of its property may be bound or affected;
- (b) all financial information provided by the Borrower to the Lender is true, correct and complete; all financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied; there has been no material adverse change in the Borrower's financial condition since the date of the most recent financial statements provided to the Lender;
- (c) other than as disclosed in Schedule "A" attached hereto, all of the Collateral is the sole property of the Borrower free from any liens, charges, security interests, encumbrances or any rights of others which rank prior to the security interest granted hereby; and
- (d) the address of the Borrower's chief executive office and the office where it keeps its records respecting the Receivables is set out in Section 14.1 of this Agreement.

3.2 Covenants. The Borrower covenants with the Lender that:

- (a) it shall ensure that the representations and warranties set forth in Section 3.1 shall be true and correct at all times;
- (b) the Borrower shall maintain, use and operate the Collateral and carry on and conduct its business in a lawful and business-like manner and in accordance with any agreement now or hereafter entered into with the Lender;
- (c) the Borrower shall defend the Collateral against all claims and demands respecting the Collateral made by all persons at any time and, except as otherwise provided herein, shall keep the Collateral free and clear of all security interests, mortgages, charges, liens and other encumbrances or interests except for those disclosed in Schedule "A" hereto or hereafter approved in writing by the Lender prior to their creation or assumption;
- (d) the Borrower shall not change its chief executive office and the location of the office where it keeps its records respecting the Accounts, or move any of the Inventory or other equipment from the address set out herein or the locations specified in any schedule hereto other than in the ordinary course of business, without the prior written notice to the Lender;
- (e) the Borrower shall pay all rents, taxes, levies, assessments and government fees or dues lawfully levied, assessed or imposed in respect of the Collateral or any part thereof as and when the same shall become due and payable, and shall exhibit to the Lender, when required, the receipts and vouchers establishing such payment;
- (f) the Borrower shall keep proper books of account in accordance with sound accounting practice, shall furnish to the Lender such financial information and statements and such information and statements relating to the Collateral as the Lender may from time to time require, and the Borrower shall permit the Lender or its authorized agents at any time at the expense of the Borrower to examine the books of account and other financial records and reports relating to the Collateral and to make copies thereof and take extracts therefrom;
- (g) the Borrower shall from time to time forthwith at the request of the Lender furnish to the Lender in writing all information requested relating to the Collateral, and the Lender shall be entitled from time to time at any reasonable time to inspect the Collateral and make copies of all information relating to the Collateral and for such purposes the Lender shall have access to all premises occupied by the Borrower or where the Collateral may be found;
- (h) the Borrower shall from time to time forthwith at the request of the Lender execute and deliver all such financing statements, schedules, assignments and documents, and do all such further acts and things as may be reasonably required by the Lender to effectively carry out the full intent and meaning of this Agreement or to better evidence and perfect the security interest, assignment and mortgage and charge granted hereby, and the Borrower hereby irrevocably constitutes and appoints the Lender, or any Receiver appointed by the court or the Lender, the true and lawful attorney of the Borrower, with full power of substitution, to do any of the foregoing in the name of the Borrower whenever and wherever the Lender or any such Receiver may consider it to be necessary or expedient;

- (i) the Borrower shall not change its name or, if the Borrower is a corporation, shall not amalgamate with any other corporation without first giving notice to the Lender of its new name and the names of all amalgamating corporations and the date when such new name or amalgamation is to become effective; and
- (j) the Borrower shall pay to the Lender forthwith upon demand all reasonable costs and expenses (including, without limiting the generality of the foregoing, all legal, Receiver's and accounting fees and expenses) incurred by or on behalf of the Lender in connection with the preparation, execution and perfection of this Agreement and the carrying out of any of the provisions of this Agreement including, without limiting the generality of the foregoing, protecting and preserving the security interest, assignment and mortgage and charge granted hereby and enforcing by legal process or otherwise the remedies provided herein; and all such costs and expenses shall be added to and form part of the Obligations secured hereunder.

ARTICLE 4 -- INSURANCE

4.1 Insurance. The Borrower shall obtain and maintain, at its own expense, insurance against loss or damage to the Collateral including, without limiting the generality of the foregoing, loss by fire (including so-called extended coverage), theft, collision and such other risks of loss as are customarily insured against on this type of Collateral, in an amount not less than the full replacement value thereof, in such form and with such insurers as shall be reasonably satisfactory to the Lender. If any such policies of insurance contain a co-insurance clause, the Borrower shall either cause any such coinsurance clause to be waived or maintain at all times a sufficient amount of insurance to meet the requirements of any such co-insurance clause so as to prevent the Borrower from becoming a co-insurer under the terms of any such policy. All such policies shall name the Lender as an additional insured and loss payee thereof, as the Lender's interests may appear, and shall provide that the insurer will give the Lender at least 10 days' written notice of intended cancellation. At the Lender's request, the Borrower shall furnish the Lender with a copy of any policy of insurance and certificate of insurance or other evidence satisfactory to the Lender that such insurance coverage is in effect. The Borrower shall give the Lender notice of any damage to, or loss of, the Collateral forthwith upon the occurrence of any such damage or loss. Should the Borrower fail to make any payment or perform any other obligation provided in this Section 4.1, the Lender shall have the right, but not the obligation, without notice or demand upon the Borrower and without releasing the Borrower from any obligation hereunder or waiving any rights to enforce this Agreement, to perform any or all of such obligations. The amount of all such payments made and all costs, fees and expenses incurred by the Lender in performing such obligations shall be immediately due and payable by the Borrower.

ARTICLE 5 -- COLLECTION OF PROCEEDS

5.1 Payments to Lender. The Lender may, after the occurrence of an Event of Default, notify any person obligated to the debtor in respect of an Account, Chattel Paper or an Instrument to make payment to the Lender of all such present and future amounts due thereunder whether or not the Borrower was theretofore making collections on the Collateral. From time to time and upon the request in writing of the Lender, the Borrower shall also so notify such persons to make payment directly to the Lender.

5.2 Demand for Payment. In addition to the rights of the Lender provided for in Section 3.1, it is understood and agreed that the Lender may, at any time on or after the occurrence of an Event of Default make demand for payment of any monies secured hereby and take control of any Proceeds.

5.3 *Monies in Trust for Lender.* In the event that the Borrower shall collect or receive any Accounts or shall be paid for any of the other Collateral or shall receive any Proceeds, all money so collected or received by the Borrower shall be received by the Borrower as trustee for the Lender and shall be paid to the Lender forthwith upon demand and shall, for all purposes, be deemed to form part of the Collateral.

ARTICLE 6 -- DEFAULT AND REMEDIES

6.1 *Enforcement of Security.* Upon the occurrence of any Event of Default, the Security Interest hereby granted shall immediately become enforceable and the Lender may, forthwith or at any time thereafter and without notice to the Borrower, except as provided by applicable law or this Agreement, take one or more of the following actions:

- (a) declare any or all of the Obligations not then due and payable to be immediately due and payable by giving notice in writing thereof to the Borrower and, in such event, such Obligations shall be forthwith due and payable by the Borrower to the Lender;
- (b) commence legal action to enforce payment or performance of the Obligations;
- (c) require the Borrower, at the Borrower's expense, to assemble the Collateral at a place or places designated by notice in writing given by the Lender to the Borrower, and the Borrower agrees to so assemble the Collateral;
- (d) require the Borrower, by notice in writing given by the Lender to the Borrower, to disclose to the Lender the location or locations of the Collateral and the Borrower agrees to make such disclosure when so required by the Lender;
- (e) without legal process, enter any premises where the Collateral may be situate and take possession of the Collateral by any method permitted by law;
- (f) repair, process, complete, modify or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Borrower or otherwise;
- (g) dispose of the Collateral by private or public sale, lease or otherwise upon such terms and conditions as the Lender may determine and whether or not the Lender has taken possession of the Collateral;
- (h) carry on all or any part of the business or businesses of the Borrower and may, to the exclusion of all others including the Borrower, enter upon, occupy and use all or any of the premises, buildings, plant, undertaking and other property of or used by the Borrower for such time and in such manner as the Lender sees fit and the Lender shall not be liable to the Borrower for any act, omission or negligence in so doing or for any rent, charges, depreciation, damages or other amount in connection therewith or resulting therefrom;
- (i) file such proofs of claim or other documents as may be necessary or desirable to have its claim lodged in any bankruptcy, winding-up, liquidation, dissolution or other proceedings (voluntary or otherwise) relating to the Borrower;

- (j) borrow money for the purpose of carrying on the business of the Borrower or for the maintenance, preservation or protection of the Collateral, whether or not in priority to the mortgages, charges, hypothecs, assignments and Security Interest hereby created and granted, to secure repayment of any money so borrowed;
- (k) where the Collateral has been disposed of by the Lender as provided in Subsection 4.1(g), commence legal action against the Borrower for the Deficiency;
- (l) where the Lender has taken possession of the Collateral as herein provided, the Lender shall retain the Collateral irrevocably, to the extent not prohibited by law, by giving notice thereof to the Borrower and such retention shall reduce the amount of the Obligations by an amount equal to the fair market value, as reasonably determined by the Lender, of the Collateral so retained;
- (m) appoint, by an instrument in writing delivered to the Borrower, a Receiver of the Collateral, and remove any Receiver so appointed and appoint another or others in its stead, or institute proceedings in any court of competent jurisdiction for the appointment of a Receiver, it being understood and agreed that:
 - (i) The Lender may appoint any person, firm or corporation as Receiver;
 - (ii) such appointment may be made at any time either before or after the Lender shall have taken possession of the Collateral;
 - (iii) the Lender may from time to time fix the reasonable remuneration of the Receiver and direct the payment thereof out of the Collateral or any proceeds derived from a sale or other disposition of dealing thereof or therewith; and
 - (iv) the Receiver shall be deemed to be the agent of the Borrower for all purposes and, for greater certainty, the Lender shall not be in any way responsible for any actions, whether wilful, negligent or otherwise, of any Receiver or for any tax liabilities arising from the use, sale or other disposition of the Collateral by the Receiver (unless all rights of ownership in the Collateral have been transferred to and vested in the Lender prior to the use, sale or other disposition thereof by the Receiver), and the Borrower hereby agrees to indemnify and save harmless the Lender from and against any and all claims, demands, actions, costs, damages, expenses or payments which the Lender may hereafter suffer, incur or be required to pay as a result of, in whole or in part, any action taken by the Receiver or any failure of the Receiver to do any act or thing;
- (n) pay or discharge any mortgage, charge, encumbrance, lien, adverse claim or security interest claimed by any person, firm or corporation and reasonably established to the satisfaction of the Lender in the Collateral and the amount so paid shall be added to the Obligations and shall bear interest at the Interest Rate per annum calculated monthly until payment thereof;
- (o) exercise all of the rights under all contracts, notes, debentures or other instruments in writing comprising the Collateral as fully and effectually as if the Lender was the absolute owner thereof;

- (p) commence legal proceedings for and on behalf of and in the name of the Lender and at the expense of the Borrower in order to enforce the rights of the Borrower under any contracts, Agreements, indentures or other instruments in writing which may form part of the Collateral; and
- (q) take any other action, suit, remedy or proceeding authorized or permitted by this Agreement, the Act or by law or equity.

6.2 *Duty of Lender to Act Reasonably.* In enforcing its rights hereunder the Lender shall be required to act at least to the standards which are consistent with the commercial practices of a person carrying on a business in a distress, default or liquidation situation.

6.3 *Sale of Collateral.* The Borrower and the Lender acknowledge and agree that any sale referred to in Subsection 4.1(g) may be either a sale of all or any portion of the Collateral and may be by way of public tender, private contract or otherwise without notice, advertisement or any other formality, all of which are hereby waived by the Borrower. To the extent not prohibited by law, any such sale may be made with or without any special condition as to the upset price, reserve bid, title or evidence of title or other matter and from time to time as the Lender in its sole discretion thinks fit with power to vary or rescind any such sale or buy in at any public sale and resell without being answerable for any loss. The Lender may sell the Collateral for a consideration payable by instalments either with or without taking security for the payment of such instalments and may make and deliver to any purchaser thereof good and sufficient deeds, assurances and conveyances of the Collateral and give receipts for the purchase money, and any such sale shall be a perpetual bar, both at law and in equity, against the Borrower and all those claiming an interest in the Collateral by, from, through or under the Borrower.

6.4 *Lender to Mean Receiver.* For the purposes of Sections 4.1, 4.2 and 4.3, a reference to "Lender" shall, where the context permits, include any Receiver appointed in accordance with Subsection 4.1(m).

6.5 *Payment of Reasonable Expenses.* The amount of the Reasonable Expenses shall be paid by the Borrower to the Lender from time to time forthwith after demand therefor is given by the Lender to the Borrower together with interest chargeable thereon at the Interest Rate calculated monthly and payment of such Reasonable Expenses together with such interest shall be secured by the Security Interest.

6.6 *Payment of Deficiency.* Where the Collateral has been disposed of by the Lender as provided herein, the Deficiency shall be paid by the Borrower to the Lender forthwith after demand therefor has been given by the Lender to the Borrower together with interest chargeable thereon at the Interest Rate calculated monthly and the payment of the Deficiency together with such interest shall be secured by the Security Interest.

6.7 *Lender's Remedies.* The Lender's rights and remedies, whether provided for in this Agreement or otherwise, are, to the fullest extent possible in law, mutually exclusive and are cumulative and not alternative.

6.8 *No Obligation to Dispose of Collateral.* The Lender shall not be under any obligation to, or be liable or accountable for any failure to, enforce payment or performance of the Obligations or to seize, realize, take possession of or dispose of the Collateral and shall not be under any obligations to institute proceedings for any of such purposes.

ARTICLE 7 -- POSSESSION OF COLLATERAL BY LENDER

7.1 *Collateral in the Possession of Lender.* Where any Collateral is in the possession of the Lender,

- (a) the Lender shall have no duty of care whatsoever with respect to such Collateral other than to use reasonable care in the custody and preservation thereof, provided that the Lender need not take any steps of any nature to defend or preserve the rights of the Borrower therein against prior parties;
- (b) the Lender may, at any time following the occurrence of an Event of Default, grant or otherwise create a security interest in such Collateral upon any terms whether or not such terms impair the Borrower's right to redeem such Collateral; and
- (c) the Lender may, at any time following the occurrence of an Event of Default, use such Collateral in any manner and to such extent as it, in its sole discretion, deems necessary or desirable.

ARTICLE 8 -- FIXTURES

8.1 *Fixtures.* The Borrower acknowledges and agrees that no Collateral shall become affixed to any real property other than real property owned by the Borrower in respect of which a mortgage or charge in favour of the Lender has been duly registered in all appropriate offices of public record.

ARTICLE 9 -- ACKNOWLEDGEMENTS BY THE BORROWER

9.1 *Acknowledgments by the Borrower.* The Borrower:

- (a) acknowledges receipt of a true copy of this Agreement; and
- (b) acknowledges and agrees that this Agreement may be assigned by the Lender, without the consent of and without notice to the Borrower, to such person, firm or corporation as the Lender may determine and, in such event, such person, firm or corporation shall be entitled to all of the rights and remedies of the Lender as set forth in this Agreement or otherwise and the Lender shall be released and discharged from its obligations hereunder.

ARTICLE 10 -- WAIVER

10.1 *Waiver by Borrower.* To the extent not prohibited by law, the Borrower hereby waives the benefit of all of the provisions of the Act or any other legislation which would in any manner adversely affect the Lender's rights or remedies hereunder.

10.2 *Waiver by Lender.* The Lender may, in whole or in part, waive any breach of any of the provisions of this Agreement by the Borrower, any default by the Borrower in the payment or performance of any of the Obligations or any of its rights and remedies whether provided for hereunder or otherwise provided that no such waiver shall be considered to have been given unless given expressly by the Lender to the Borrower in writing.

10.3 *Failure of Lender to Exercise Rights.* The Lender may, at any time, grant extensions of time or other indulgences to, accept compositions from or grant releases and discharges to the Borrower

in respect of the Collateral or otherwise deal with the Borrower or with the Collateral and other security held by the Lender, all as the Lender may see fit, and the Borrower agrees that any such act or any failure by the Lender to exercise any of its rights or remedies, whether provided for hereunder or otherwise, shall in no way affect or impair the Security Interest or the rights or remedies of the Lender, whether provided for in this Agreement or otherwise.

ARTICLE 11 -- EFFECTIVE DATE AND TERMINATION

11.1 *Effective Date.* This Agreement shall become effective according to its terms immediately upon the execution hereof by the Lender and the Borrower. This Agreement and the Security Interest are in addition to and not in substitution for any other Agreement made between the Lender and the Borrower or any other security granted by the Borrower to the Lender whether before or after the execution of this Agreement. The Security Interest shall be a general and continuing security notwithstanding that the Obligations shall at any time or from time to time be fully satisfied or performed and shall continue in full force and effect until terminated as provided in Section 9.2.

11.2 *Termination of Agreement.* This Agreement may be terminated by written Agreement made between the Lender and the Borrower or by notice in writing given by the Borrower to the Lender at any time when all of the Obligations have been fully satisfied and performed by the Borrower. Upon termination of this Agreement in accordance with the provisions of this Section 9.2, the Lender shall, at the request and expense of the Borrower, make and do all such acts and things and execute and deliver all such financing statements, instruments, Agreements and documents as the Borrower reasonably considers necessary or desirable to discharge the Security Interest, to release and discharge the Collateral therefrom and to record such release and discharge in all appropriate offices of public record.

ARTICLE 12 -- POWER OF ATTORNEY

12.1 *Appointment of Lender as Attorney.* The Borrower hereby irrevocably constitutes and appoints the Lender as the true and lawful attorney of the Borrower with power of substitution in the name of the Borrower to do any and all such acts and things or execute and deliver all such Agreements, documents and instruments as the Lender, in its sole discretion, considers necessary or desirable to carry out the provisions and purposes of this Agreement or to exercise any of its rights and remedies hereunder, and to do all acts or things necessary to realize or collect the Proceeds and the Borrower hereby ratifies and agrees to ratify all acts of any such attorney taken or done in accordance with this Section 10.1. This power of attorney shall not be revoked or terminated by any act or thing other than the termination this Agreement in accordance with Section 9.2.

ARTICLE 13 -- REGISTRATION

13.1 *Lender to Effect Registrations.* The Lender will promptly effect all registrations, filings, recordings and all re-registrations, refilings and re-recordings of or in respect of this Agreement and the Security Interest in all offices in all jurisdictions and at such times as may be necessary or of advantage in perfecting, maintaining and protecting the validity, effectiveness and priority hereof and/or of the Security Interest.

ARTICLE 14 -- GENERAL CONTRACT PROVISIONS

14.1 *Notices.* All notices, requests, demands or other communications (**collectively, "Notices"**) by the terms hereof required or permitted to be given by one party to any other party, or to any other person shall be given in writing by personal delivery or by registered mail, postage prepaid, or by

facsimile transmission to such other party as follows:

- (a) To the Borrower at: 523 McNicoll Avenue
North York, Ontario
M2H 2C9
Facsimile: (416) 297-5156
- (b) To the Lender at: 100 Sportsworld Drive
Kitchener, Ontario
N2P 2J1
Facsimile: (519) 653-0012

or at such other address as may be given by such person to the other parties hereto in writing from time to time.

All such Notices shall be deemed to have been received when delivered or transmitted, or, if mailed, 72 hours after 12:01 a.m. on the day following the day of the mailing thereof. If any Notice shall have been mailed and if regular mail service shall be interrupted by strikes or other irregularities, such Notice shall be deemed to have been received 72 hours after 12:01 a.m. on the day following the resumption of normal mail service, provided that during the period that regular mail service shall be interrupted all Notices shall be given by personal delivery or by facsimile transmission.

14.2 Additional Considerations. The parties shall sign such further and other documents, cause such meetings to be held, resolutions passed and by-laws enacted, exercise their vote and influence, do and perform and cause to be done and performed such further and other acts and things as may be necessary or desirable in order to give full effect to this Agreement and every part thereof.

14.3 Counterparts. This Agreement may be executed in several counterparts, each of which so executed shall be deemed to be an original and such counterparts together shall be but one and the same instrument.

14.4 Time of the Essence. Time shall be of the essence of this Agreement and of every part hereof and no extension or variation of this Agreement shall operate as a waiver of this provision.

14.5 Entire Agreement. This Agreement constitutes the entire Agreement between the parties with respect to all of the matters herein and its execution has not been induced by, nor do any of the parties rely upon or regard as material, any representations or writings whatever not incorporated herein and made a part hereof and may not be amended or modified in any respect except by written instrument signed by the parties hereto. Any schedules referred to herein are incorporated herein by reference and form part of the Agreement.

14.6 Enurement. This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and assigns.

14.7 Currency. Unless otherwise provided for herein, all monetary amounts referred to herein shall refer to the lawful money of Canada.

14.8 Headings for Convenience Only. The division of this Agreement into articles and sections is for convenience of reference only and shall not affect the interpretation or construction of this Agreement.

14.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and each of the parties hereto agrees irrevocably to conform to the non-exclusive jurisdiction of the Courts of such Province.

14.10 Gender. In this Agreement, words importing the singular number shall include the plural and vice versa, and words importing the use of any gender shall include the masculine, feminine and neuter genders and the word "person" shall include an individual, a trust, a partnership, a body corporate, an association or other incorporated or unincorporated organization or entity.

14.11 Calculation of Time. When calculating the period of time within which or following which any act is to be done or step taken pursuant to this Agreement, the date which is the reference date in calculating such period shall be excluded. If the last day of such period is not a Business Day, then the time period in question shall end on the first business day following such non-business day.

14.12 Legislation References. Any references in this Agreement to any law, by-law, rule, regulation, order or act of any government, governmental body or other regulatory body shall be construed as a reference thereto as amended or re-enacted from time to time or as a reference to any successor thereto.

14.13 Severability. If any Article, Section or any portion of any Section of this Agreement is determined to be unenforceable or invalid for any reason whatsoever that unenforceability or invalidity shall not affect the enforceability or validity of the remaining portions of this Agreement and such unenforceable or invalid Article, Section or portion thereof shall be severed from the remainder of this Agreement.

14.14 Transmission by Facsimile. The parties hereto agree that this Agreement may be transmitted by facsimile or such similar device and that the reproduction of signatures by facsimile or such similar device will be treated as binding as if originals and each party hereto undertakes to provide each and every other party hereto with a copy of the Agreement bearing original signatures forthwith upon demand.

IN WITNESS WHEREOF the parties have duly executed this General Security Agreement this 30th day of June, 2004.

PERMATECH ELECTRONICS CORPORATION

Per: _____ C/S
A.S.O.

NU-WAY OFFERINGS LIMITED

Per: _____ C/S
A.S.O.

Schedule "A"

PRIOR ENCUMBRANCES OF BORROWER

Equipment under lease or rental:

1. Panasonic placement machine
Model number: 2556 EA
Serial number: 20900253
Leased from Golborne Management

2. Siemens placement machine
Model number: Siplace 80 F4
Serial number: 187-8778
Short term rental from Siemens Dematic

SCHEDULE "B"

PROMISSORY NOTE

Principal and Interest

1. FOR VALUE RECEIVED, **PERMATECH ELECTRONICS CORPORATION** (herein called the "Maker") hereby promises to pay to or to the order of **NU-WAY OFFERINGS LIMITED** (herein called the "Holder") at 510 Branstone Drive, Waterloo, Ontario, N2T 1X8 (or at such other place as the Holder may from time to time designate by notice in writing to the Maker):

- (a) the principal sum of \$363,145.09 in lawful money of Canada (herein called the "Principal"); and
- (b) interest in like money on the unpaid portion from time to time of the Principal until the Principal is repaid in full at the rate per annum, equal to the prime rate of the Bank of Montreal plus 14.3% (the "Interest Rate"), calculated semi-annually not in advance, as well after as before maturity and both before and after default,

and the Principal and such interest shall become due and be paid as follows: from the date of this note until June 30, 2005, payments of interest only payable on the 15th day of each month commencing July 15, 2004, after June 30, 2005 in monthly instalments each of which includes both principal and interest, due on the 15th day of each and every month to the 30th day of June, 2008. With such month payments being calculated based upon the Interest Rate and an amortization period of three (3) years.

Interest on Overdue Interest

2. In the event that default shall be made in the payment of any sum to become due for interest at any time appointed for payment thereof as aforesaid, compound interest shall be payable on such sum; and the sum in arrears for interest from time to time, as well after as before maturity, shall bear interest at the aforesaid rate and, in case the interest and compound interest are not paid within one month from the day preceding the time of default, a rest shall be made and compound interest at the rate aforesaid shall be payable on the aggregate amount of interest and compound interest then due, as well after as before maturity, and such rests shall be similarly made on a monthly basis thereafter.

Application of Payments

3. Any amount paid in satisfaction of the indebtedness evidenced by this promissory note shall be applied firstly in satisfaction of any accrued and unpaid interest and any interest thereon, and then the remaining portion of such amount shall be applied in satisfaction of the Principal owing hereunder.

Judgement Interest

4. In the event that the Holder obtains judgment on this promissory note or in respect of any amount owing hereunder, interest at the aforesaid rate, calculated monthly, not in advance, shall be payable on the amount which is outstanding under the said judgment from time to time.

Payment

5. At any time and from time to time any portion of the Principal may be prepaid without any notice being given to the Holder and without any bonus or penalty being paid to the Holder.

Non-Waiver

6. The extension of the time for making any payment which is due and payable hereunder at any time or the failure, delay or omission on the part of the Holder to exercise or enforce any rights or remedies of the Holder hereunder or under any instrument securing payment of the indebtedness evidenced by this promissory note shall not constitute a waiver of the right of the Holder to enforce such rights and remedies thereafter.

Notices and Demands

7. All notices and demands provided for herein shall be in writing and shall be personally delivered or mailed by prepaid registered mail to the Maker at 523 McNicoll Avenue, North York, Ontario M2H 2C9 or to the Holder at 100 Sportsworld Drive, Kitchener, Ontario, N2P 2J1 or to such other address as either party may from time to time designate to the other party by notice in the aforesaid manner. Any notice or demand so personally delivered shall be deemed to have been validly and effectively given and received on the date of such delivery. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the third day following the date of mailing.

Amendments

8. No amendment, modification or waiver of any provision of this promissory note or consent to any departure by the Maker from any provision of this promissory note is in any event effective unless it is in writing and signed by the Holder and then the amendment, modification, waiver or consent is effective only in the specific instance and for the specific purpose for which it is given.

Applicable Law

9. This promissory note shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

Time of the Essence

10. Time shall in all respects be of the essence of this promissory note.

Waiver of Benefits

11. The Maker hereby waives the benefits of division and discussion, demand and presentment for payment, notice of non-payment, protest and notice of protest of this promissory note.

Compliance with Directions, etc.

12. The Holder may at any time direct the Maker to make any payment which is due and payable hereunder or to become due and payable hereunder to any person and the Maker shall comply with such direction. The Maker shall, upon written demand of the Holder, confirm to any third party specified by the Holder that such direction has been received and that no prepayments have been made hereunder and that the Maker has not been directed to make payments hereunder to any other person.

Negotiability

13. This promissory note may be negotiated, assigned, discounted, pledged or hypothecated by the Holder and by any subsequent holder of this promissory note. This promissory note is intended by the parties to be, and is, a negotiable instrument.

IN WITNESS WHEREOF the Maker has executed this Promissory Note this _____ day of July, 2004.

**PERMATECH ELECTRONICS
CORPORATION**

per: _____ c/s
A.S.O.

The Maker acknowledges having received a copy of this promissory note this _____ day of July, 2004.

**PERMATECH ELECTRONICS
CORPORATION**

per: _____ c/s
A.S.O.